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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

REPORT AND RECOMMENDATIONS

TO

THE ONTARIO COMMITTEE ON TAXATION

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THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO

REPORT AND RECOMMENDATIONS TO

THE ONTARIO COMMITTEE ON TAXATION

The Institute of Chartered Accountants of Ontario wishes to express its appreciation to the Commissioners for the opportunity of presenting a submission on the problems faced by the Province of Ontario and its local Governments in raising adequate tax revenue to finance the services which the public expects to be provided. We are concerned not only as individuals but as a professional association with the necessity to assure that any tax and revenue system of the Province and local Governments is "as simple, clear, equitable, efficient, adequate and as conducive to the sound growth of the Province as can be devised."

The tax and revenue system of the Province of Ontario, its municipalities and school boards, must, if it is to be efficient and productive, take into consideration present and potential financial requirements. Over the past ten years expenditures by provinces and municipalities in Canada have risen from 9-1/2% of the gross national product to 16%. Similarly, expenditures at the federal level have risen from 11-1/2% to 17% of gross national product. The Canadian Tax Foundation has pointed out "that the Provinces and their municipalities are in as deep a deficit position as the Federal Government and need more revenues to keep deficits from growing." In the province of Ontario, while personal income increased from $6,749,000,000 in 1952 to $12,292,000,000 in 1962, over the same ten-year period the net general expenditure of the Province increased at a much higher rate from under $370,000,000 in 1952 to $1,037,000,000 in 1962. Although the Province, its municipalities, and school boards are under constant pressure to increase spending, one cannot ignore the realism of the question - are we rich enough to afford the level of spending that the electorate purports to want? It would be desirable to have the welfare benefits available in the United Kingdom and the affluence available in the United States, but it is doubtful if we can have either at this point due to a much smaller population and a lesser degree of economic maturity. Our people must be educated to the fact that

what we desire to have must be within the productivity of the tax system that we wish to impose on ourselves, without destroying or undermining the enterprise that provides the tax revenue. To establish a financial policy in which tax revenues must rise to the level of expenditures desired rather than the level of expenditures remaining within the productivity of our tax revenues is to ignore the economics of our system. We must use the same common sense in our social requirements as we hope to use in our own businesses and homes.

The trend in past expenditures and future estimates indicate an obvious rise in the areas of transportation, health, social welfare, education, and municipal services. What type of tax base can best cover these demands? Only a tax base that is expanding, productive, and prosperous. Our tax system must take into recognition policies that allow for expansion of business, higher and more efficient productivity, and growing levels of consumption. Any tax system that stifles incentives and the desire to produce is self-defeating. If the tax base itself does not grow, then to cover the expenditures imposed, it is necessary to raise the tax rates. No matter what category one considers - the taxation of commodities, services, income, or realty - confiscatory rates result in public lethargy and business stagnation. Our tax system must be competitive not only with other Provinces but with other countries. We must choose methods that reward the efficient and that spur growth. Policies that do not support sensible economic situations will inevitably impede growth of Government revenues.

When one considers the area of Provincial taxation, recognition must be given to Federal-Provincial co-operation. One of the results of the Rowell-Sirois Commission on Dominion-Provincial Relations some twenty-six years ago was the implementation of a uniform system of personal income taxes, corporation taxes, and succession duty. There are obvious constitutional difficulties when one considers establishing a uniform system of taxation throughout Canada. But unless we wish to Balkanize our country by local tax competition, the national interest requires that where it is more efficient and

productive, taxes be levied at a uniform level with a uniform base throughout Canada. Such co-operation has been possible in the past. Even more co-operation in certain fields will be necessary in the future. We must act as Canadians first, and the Province of Ontario must use its influence where it is beneficial to the growth of the country to assure sane responsible tax policy. With Provincial and municipal expenditures and revenues close to that of the Federal level, we must recognize that any policy instituted by the Federal Government to benefit the country as a whole, in light of competition from other countries, must be considered and not ignored by the Provinces. To do otherwise would be self-defeating.

In our examination of the major sources of tax revenue and possible new sources, we observed that in the scramble for more revenue, increasing impositions were made on certain tax revenues. High tax rates, particularly corporate and personal income tax rates, in areas where incentive plays a key part will discourage initiative. But the system, although hampered in certain respects, is amazingly resilient in other areas. The incentives to business and individuals to earn more and produce more must be increased. The heavy dependence on corporate and individual income taxes has, to a certain degree, been offset by the recognition of retail sales taxes and commodity taxes as a source of Government revenue. This tendency should be increased. We feel that further income tax increases will only frustrate the efficient and lead to a deteriorating economic use of our resources of manpower and materials. In the light of a policy which appears will lead to lower income tax rates in the United States, our tax rates by comparison will discourage the flow of capital into Canada and Ontario, a factor we cannot ignore if we are to have a vital economy. Our business community must prosper for, if incentive is lacking, there will be less profits, less employment, less productivity, and, as a result, less revenue to meet the Government and welfare programmes we require as a minimum in our public sector. We recognize that if increased incentives are to be provided by way of reductions in corporate and personal income tax rates, they must come mainly at the Federal level - the Province of Ontario can use its influence to bring such to pass.

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We have not only recommended the use of retail sales tax on a uniform basis across Canada with possible Provincial supplements, but an extension of this tax into the area of services. As a result, our exports should become more competitive in foreign countries due to exemption of sales tax on products subject to export. Further, the sales tax would also bear on products imported into Canada for consumer use and enable our industries to produce at a competitive level with imported products.

The implementation of a more realistic policy toward succession duty and estate tax reduction, combined with less dependence on the income tax, would result in a people more capable of investing, with more to spend, and may encourage the desire to venture into new businesses and to retain and expand existing businesses. The elimination of certain inequities in our tax system, as well as the removal of impediments in the taxation of natural resources, would also enhance our competitive position. "Ultimately, if we have confidence in ourselves and as Canadians insist upon good Government, the ownership of industry and business sparked by capital from elsewhere will become Canadian by reason of the increasing wealth of our country and our people." (Leslie Frost, former Premier of Ontario).

As people bind themselves together in greater and greater numbers to form large and populous municipalities, the brunt of the demands for the essential services required by large numbers of people have fallen on the municipal system. In many respects the municipal system has been highly successful in dealing with these problems. Generally, the present policy in real estate taxes remains efficient and productive. Nevertheless, certain problems have grown. Greater recognition should be given to the different requirements of the large cities vis-a-vis the requirements of rural districts and towns. The type of school facilities necessary to educate one hundred children is much different from the type of facilities needed to provide for ten times that number. What may be an adequate grant for an urban municipality may be an inducement to overspend for a rural district. In fact, the rising level of grants should be halted. It would appear that many large cities would find it in the interest of their

citizens to resist higher educational grants, as the monies flowing out of the cities for general sales and income taxes to provide for these grants does not flow back in equal amounts to the city by means of these grants. Invariably, a lesser amount comes back. The city would be better off raising its increased requirements through its own resources. It would then be necessary for the local elected representatives to justify the rise in the education portion of the realty tax to the municipality. We have recommended that Ontario exert its best efforts to reduce the amount and variety of inter-governmental grants-in-aid. This will make it possible for senior levels of government to reduce tax levels, leaving available more resources for taxation by the level of government spending the money.

With costs of transportation, education, and hospital care amounting to approximately 72% of total expenditure, the people of Ontario must be prepared to pay for more of the services that they receive. In particular, we have noted that the present policy of hospital insurance premiums results in a decreasing portion of the cost being recovered from premium payments. Not only does this put a greater burden on the Government to cover the rising expenditures, but it also subsidizes the consumer of hospital services to a greater degree than is necessary. The present policy with respect to the Ontario Hospital Services Commission is also inadequate in this field. Removing the Commission a step away from Government policy would be beneficial as has been the case in the Workmen's Compensation Board and the Hydro-Electric Power Commission. By instituting a system where the Hospital Commission must attempt to pay its way, one returns to a stronger level of control which we feel is requisite.

Tax revenues in themselves do not mean efficient use of money and cannot substitute for control over unnecessary expenditures. It is interesting to note that the percentage of personal income in Canada appropriated for welfare expenditures is 12% in comparison with 8% for Britain and 7% for the United States. And as a percentage of gross national product, such expenditures in Canada have increased from 2.8% in 1947-49 to 6.1% in 1961.

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Obviously one of the main reasons for our greater cost is our smaller population in comparison with these other countries. This would seem to require even more ingenuity on our part to assure that these costs do not take a disproportionate amount of our national income. The lessons to be learned from our hospital insurance scheme should be recognized in any scheme for medical and pension plans to be instituted in Ontario. The consumer or user should bear a reasonable portion of these costs, for this seems to be the only way in which each resident of Ontario can recognize the increased cost of social services. It is also a method of assuring that Government bodies will not be inefficient or unwise in their policies in these fields, as it is often too easy to promise benefits that the country cannot afford.

We have noted that in respect to the Federal-Provincial grants-in-aid in certain areas it would be wiser for the Provincial Government to insist on a greater percentage of corporate and individual income taxes and estate taxes, with a reduction in grants to the Province. Grants, although they may be beneficial in the short run, lead to increased Provincial costs in the long run. These monies should be turned over to the Province without strings attached. It would then be up to the Province to determine the wisest and most economic way to spend the monies.

The increased complexity of various taxes and the antiquities in certain legislation leads to greater cost both to the Government in its administration of the taxes and to business due to the indirect expense of levying or reporting the tax revenue. We have pointed out the need for simplification and clarity and, wherever possible, the elimination of nuisance taxes as well as the trend to use exceptions and exemptions in different levels of tax that are basically similar.

We would like to point out that in many areas of Provincial finance, there is a lack of readily available statistics and necessary data. We suggest that the statistical information developed by the Committee on Taxation, as well as the briefs submitted, together with data attached (to the extent that they have not been submitted in camera), should become part of the public archives so that the results will be available for further study.

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COMMODITY TAXES AND REVENUES

This area of general revenue to the Province of Ontario includes the fields of retail sales tax, gasoline and fuel tax, vehicle and driver licensing fees, etc., the amusement (hospital) tax, and liquor revenues. There are other provincial revenue sources in this category, but this report will be confined to the major categories. Commodity taxes and commodity revenues, as a group, contribute a substantial portion of the general tax revenue for the Province of Ontario. In 1962, for example, the motor fuel tax and vehicle fees provided approximately 22% of total revenue, and the general sales tax 8% (the retail sales tax came into effect on September 1st, 1961 and so in the 1962 public accounts was only in operation for seven months); liquor profits made up 8% of total revenue. (See Table 1). In 1963, it is expected that these three categories alone will provide the Province of Ontario with approximately 46% of its total revenue. As a general comment, if the Province is prosperous and business activity and consumer consumption continues at a high level so that the base subject to taxation continues to expand, a direct result will be the production of more actual dollars of tax revenue without an increase in the level of rates of taxation. This is the most desirable method of obtaining tax revenue - through an expanding base. It is when the rate of growth of consumption and business activity contracts that the demands of Government requirements result in an inevitable increase in tax rates, which further inhibit and detract from provincial growth. At that point, no matter how clear or efficient the tax in effect is, the inevitable rise in rates would hinder the continuing economic prosperity and growth of the Province.

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THE RETAIL SALES TAX

We feel that as a tax the retail sales tax can have all the characteristics of a sound and equitable levy. At the present time this tax in Ontario is relatively new. Its potential, however, as a major source of revenue for the Province is important in two respects - as a growing contributor to Government revenues and secondly, as a method or vehicle of reducing tax inequities in other fields.

As Government expenditures increase, consideration will no doubt be given to the alternative methods of raising the additional amount of revenue required to provide for these expenditures. In our view, increased revenue should come from an extended use of commodity taxes and not from an increase in the rates of income taxes. Even more to the point, we feel that steps should be taken to reduce the impact of income taxes from their present rates to lower levels. We believe that the tax structure of the Province of Ontario and of Canada must be designed to create the minimum disincentive possible. When income and corporate taxes reach or exceed 50% of the marginal income of the tax payer they have an inhibiting effect on growth and risk taking - both of which are necessary if our Province and our Country are to prosper. The overall marginal income and corporate tax rates should be reduced but we recognize at the same time that any reduction in Government revenues from such sources must either be offset by decreased expenditures or revenue from other sources. We are of the opinion that the scope and level of the retail sales tax can be broadened without the stifling impact on the economy as a whole that is created by present income tax rates.

There are benefits to be had in moderating the use of income taxes and emphasizing the use of sales taxes. Mr. Martin Norr, presently associated with the international programme in taxation at the Harvard Law School, summed up the point as follows, "As such, it (the sales tax) falls alike on the profitable and the unprofitable, on the growing and the stagnant. Under the corporation income tax, by contrast, the more efficient the enterprise the heavier its tax burden; the most efficient people pay by far the

most tax and the effect is to check the rate of growth of the efficient." While Mr. Norr was addressing the problem to the value-added tax, we feel that the comment is equally relevant to the preference in use of the sales tax to the income tax. Professor John Due of the Department of Economics, the University of Illinois, a prominent authority in the field of sales tax, expressed the problem in these terms: "The sales tax, to the extent to which it is reflected in higher prices to the consumers and other elements in the situation remain unchanged, will be borne in relation to consumption expenditures. Thus, per dollar of tax revenue, the overall direct repressive effects on incentives to undertake business expansion are less, since the portion of income saved is not subject to tax, and the tax rates are not progressive relative to income. Likewise, the sales tax is likely to reduce the percentage of income saved less than the income tax, primarily because it is borne to a greater extent than the income tax by persons spending high percentages of their incomes." Although it is difficult to determine the relative effects of income and consumption taxes upon willingness to work and to take more responsible jobs, we feel that the income tax would likely have more adverse effects than the sales tax because of the progressive marginal rates. Professor Due also points out "While the sales tax likely reduces the potential rate of capital formation to a lesser extent than the income tax raising the same revenue, it may aggrevate the problem of maintaining the actual rate of growth at the level of the potential rate." In other words, although at the present time income tax rates are at a high disincentive level, the solution would not be to reduce income tax rates to extremely low levels and put the entire burden on the sales tax. For, in that case, there is no doubt that an extremely high sales tax would reduce overall consumer demand and raise problems that would affect the total volume of consumption. Rather, the solution lies in a reasonable reduction of income tax rates and a moderate rise in sales taxes which can be effected due to the leverage inherent in the broad base subject to sales tax. As an example, repeal of the Ontario corporation income tax of 11% could be paid for by increasing the Ontario sales tax from 3% to 6%. While we do not recommend the elimination of the provincial corporation income tax, the

example indicates the leverage inherent in the retail sales tax.

Having made this point, we are then drawn to the problem of determining what manner of sales tax structure would be simple, clear and equitable. At the present time all provinces except Alberta and Manitoba levy a retail sales tax. The Federal Government levies a manufacturer's sales tax. There is no doubt that this process results in duplicate use of Government resources, both for administration of the relative acts and the steps necessary to assure compliance on the part of all taxpayers. This also involves added administrative and collection costs to businesses. Another major area of difficulty is the purchase of taxable goods in one province for use in another province. Further, the question arises as to whether or not the provinces receive their full amount of sales tax on items imported for consumer use in the respective province. The leakage that inevitably results between inter-provincial sales lessens the respect for the tax generally.

Accordingly, we recommend that the Province of Ontario use its influence to achieve the following - the replacement of the Federal Manufacturer's Sales Tax by a Federal Retail Sales Tax and the addition of a tax supplement for each province to replace the present provincial retail sales taxes. This would require uniform legislation in all provinces and a new Federal Sales Tax Act.

Although this reflects, to a certain degree, on provincial financial autonomy, the benefits to be had outweigh the disadvantages. In the past Canada has found that when action is required to benefit both the national and provincial interest sincere effort on the part of all parties has resulted in uniform and beneficial legislation in the financial field. This was true with respect to the use of personal income taxes and corporation taxes, and is now equally necessary in the field of commodity sales taxes. Only in this way can we attempt to alleviate "the scramble for taxes" as mentioned by Graham F. Towers that would only fracture the tax productivity of the provinces and Canada as a whole. As mentioned in other sections of this report, the

elimination of duplication in the fields of taxation would not only be productive and result in more tax revenue but would undoubtedly reduce the tax administrative cost for both Governments and businesses.

Collection of the retail sales tax should be by a central agency which could either be a provincial-federal agency or a federal agency alone. This would assure uniform interpretation of the legislation, reduce cost, eliminate the present problems with respect to interprovincial sales, and prevent the leakage of tax revenue in interprovincial purchases and imported purchases.

It is also felt that the tax base should be broadened even further than the present level of incidence. Exemptions should be kept to a minimum, for in many cases the exemptions are artificial to a certain degree (for example the exemption of coal, fuel oil, natural gas, and electricity and certain other items under the present Ontario Retail Sales Tax Act). There is no doubt, as well, that exemptions or exceptions to the rule increase administrative cost to a considerable degree not only to the Government but to the business community as well. One example of an exemption that has no doubt led to a great deal of administrative cost is the exemption of children's clothing from the retail sales tax. An exception which has no doubt led to similar cost has been the $1.50 level at which restaurant meals become taxable. Confections and soft drinks have presented similar difficulties.

As the needs for additional revenue funds increase Ontario will no doubt consider an increase in the rate of the sales tax as have other provinces. In order to defer such an increase and in line with our thinking on the elimination of exemptions and exceptions, we feel that services should also be subject to the retail sales tax. The service industry in Ontario is a substantial one and there would appear to be a distortion in exempting this area from retail sales taxes. There are no doubt some services which would be exempt for social reasons such as medical care and hospitalization. Also any services provided to manufacturers, wholesalers and retailers would also be exempt to avoid pyramiding the retail sales tax into the tax structure. For example, we feel that it is equitable to treat these items similarly to

the original exemption for materials, equipment, and supplies used in producing manufactured goods under the manufacturer's sales tax. This could be handled as is done now by means of exemption certificates which, we feel, operate on a satisfactory basis. If such exemptions or pass-throughs are not made then there is no doubt that the retail sales tax would pyramid so that the consumer would be paying a much higher effective rate of tax than the apparent rate. This would result in a tax similar to a turnover tax as is presently in effect in certain countries in Europe. This type of tax is felt to be unsatisfactory. The incidence of the tax should be that it does not become a part of the cost of production. Since to a large degree increased prosperity in Canada will be dependent on the expansion of our foreign trade we must avoid to the fullest degree possible any pyramiding of cost, including taxes, which renders us less competitive in world markets. However, certain items could be eliminated from this exclusion to avoid administrative costs.

The following services are representative of the types of services that would now become subject to the retail sales tax act.

1. Repair services on property
2. Installation of tangible personal property in real property
3. Laundry, dry cleaning, and related services
4. Lubrication, battery charging, towing, and other garage services
5. Repainting and refurnishing of tangible personal property
6. Barber and beauty parlor service
7. Hotel and motel charges for transient accommodation
8. Storage of taxable tangible personal property
9. All transportation charges except municipal transit

Such service establishments would be exempt on the actual equipment necessary to render the service and the actual material consumed in providing it. This would also eliminate the present administrative costs where certain service establishments are exempt on services but must charge a tax on certain commodities that they sell. The effect of the broadening of the tax base would make all items subject to tax.

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Consideration should also be given to commodities that have distinctive features from a taxation viewpoint. For example, tobacco being a specific commodity and controlled by relatively few manufacturers and distributors, could be the subject of a separate tax distinct from the general retail sales tax and perhaps at a higher rate. If this were done, it would of course be exempt under the general retail sales tax. The collection of the tobacco tax, from an administrative viewpoint, would result in considerable savings both for the Government and for business in general. This is basically due to the small number of distributors involved in the tobacco industry. Also, as an item like gasoline is distributed in Ontario through approximately fifty distributors, it would be inadvisable to levy this tax at the service station level.

A final word should be said about the exemption of municipalities and educational institutions from the retail sales tax. At the present time, a municipality, for example, can be exempt from the retail sales tax but there is no doubt that the rebate system in which the municipality must submit evidence of the tax paid and the Province must check such evidence result in considerable cost both to the Province from the point of view of administration, and to the municipality from the point of view of the lengthy time required to receive the rebate. It would be preferable to eliminate the exemptions from municipalities altogether and to give the municipalities a rebate of a flat amount per capita. Although we do not have statistics available, a rebate for example, of 25¢ per capita, could equal the same amount as the rebate normally requested by the municipality. This would result in the same outlay of rebates by the Province of Ontario. The point though is, that the administrative cost in this particular rebate, which is considerable, could be avoided.

Consideration was given by our Committee to the possible use of a value-added tax, a turnover tax, and a gross receipts tax. Although these taxes are currently in use in various European countries it is felt that a retail sales tax, at both the Federal and Provincial level, would be more suited to Canada and Ontario from a physical and economic viewpoint due to the

present variance in size, numbers, and types of vendors in Canada. The cost of educating the public to a new tax, such as these, would be considerable. Further, from a revenue viewpoint, we do not feel that there would be any major advantages.

RECOMMENDATIONS

To summarize then we would recommend the following -

1. The Province of Ontario use its influence to bring about the replacement of the Federal Manufacturer's Sales Tax by a Federal Retail Sales Tax and the addition of a tax supplement for each province to replace the present Provincial retail sales taxes.
2. Collection of the retail sales tax should be by a central agency which could either be a provincial-federal agency or a federal agency alone.
3. The present tax base should be broadened even further to eliminate artificial exemptions and exceptions.
4. Services should also be subject to the retail sales tax. Any services provided to manufacturers, wholesalers and retailers would be exempted to avoid pyramiding the retail sales tax into the tax structure.
5. It would be preferable to eliminate the exemptions from municipalities now in effect and to give the municipalities a rebate of a flat amount per capita.

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GASOLINE TAX, FUEL TAX, VEHICLE AND DRIVER LICENSING FEES

In the fiscal year 1962 for the Province, motor fuel and fuel oil taxes brought in revenue of approximately $173,000,000. A further $70,000,000 was raised through vehicle and driver licensing fees. The purpose of these taxes and fees ostensibly should be to cover the capital and operating costs of highway construction and maintenance. As to what portion of such cost should be borne by motor vehicle users and what portion should be borne out of general revenue is a question worthy of detailed consideration by the Province. Motor vehicle users undoubtedly receive the major benefit of transportation expenditures. Nevertheless, the general public also benefits from an efficient system of roads and highways. And to a certain degree, it could be maintained that part of these costs should be contributed out of general revenues derived from the taxation of the public in Ontario rather than the motor vehicle user. In a statistical summary prepared by the Canadian Tax Foundation (Provincial Finances, 1963 - Table 48) it was noted that transportation (including communications) costs represented 23% of Ontario's total estimated outlays in 1963. This was down considerably from 33% in 1953. Actual dollar expenditure increased from $126,500,000 in 1953 to $266,100,000 in 1963. This function increased approximately 121%. The increase reflects a higher outlay for physical assets in the highway and road system, as well as the natural increase in costs. However, the percentage increase in this category was considerably less than the percentage increase in the categories of education costs and health costs.

As a general comment, we feel that a good part of the backlog in requirements for highway and road expenditures has been filled to a satisfactory degree. Further, due to the increase in motor vehicle "population", the gasoline and motor vehicle fuel tax, and licensing fees, have become a profitable tax. Basically the revenue from these areas are more than covering the related cost for transportation and communications.

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In particular, we refer the Ontario Committee on Taxation to Table 2. The total of motor vehicle, fuel and gasoline taxes, as well as motor vehicle license fees, collected from November 1st, 1918 to March 31st, 1962 in Ontario total $2,682,162,000. This amount exceeds by $407,625,000 the operating costs of building the highways, the maintenance of them, and paying interest on the unamortized portion of the construction costs. The table has taken into consideration the following charges in operating costs -

1. Amortization of capital expenditures and capital subsidies to municipalities are on a thirty-year basis.
2. Interest on unamortized portion of capital expenditures is calculated at 4-1/2% per annum.
3. Gross ordinary maintenance expenditure includes maintenance subsidies to municipalities and 60% of the entire cost of the Ontario-Provincial Police.
4. Interest on the deficiency of revenue from gasoline and motor vehicle fuel taxes, and motor vehicle license fees, in meeting all charges, less interest credited on the surplus of such revenue over the entire amount of all charges in those years when the latter condition applied, is included.
5. The schedule shows in summary the position of the highway account on the basis described at March 31st, 1955 and at March 31st, 1962. (The first summary is taken from the Interim Report of the Select Committee of the Legislature of Ontario who published in detail the net cost of highways to March 31st, 1955 in their Interim Report. The second summary has been prepared from an examination of the Public Accounts of Ontario from March 31st, 1955 to March 31st, 1962.) It would appear that the deficit in this area was down to $26,498,000 as at March 31st, 1955. A surplus existed of $407,625,000 as at March 31st, 1962. In the intervening period taxes and fees from this source were "profitable" to the extent of $434,123,000.

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The indication from the general statistics that we have available would imply that Ontario highway users have contributed a higher proportion of road costs than highway users in other provinces. (Reference - Taxes and Traffic - A Study of Highway Financing: The Canadian Tax Foundation). The question arises - should there be a "profit" made in this area? Should the present levy on motor fuel, gasoline, and diesel fuel be reduced? As a significant portion of these taxes and fees are paid by business, if these taxes are higher than they should be, then once more there is a pyramiding of tax cost into the end product costs of products manufactured in Ontario. We recognize that the Province, as a matter of policy, may feel that the profits in this field should be applied to expenditures not related to the functions of transportation and communications. We are not in a position to question the use made of revenues from a particular field of taxation. However, it would seem from the above that no further increases in these taxes and fees are warranted and, indeed, any such increases could unduly affect the competitive position of commercial users versus other forms of subsidized transportation.

In 1955 a study was prepared by the Canadian Tax Foundation titled - "Taxes and Traffic-A Study of Highway Financing". We feel that the recommendations on Page 130 of that study are still valid.

"The following observations have been made in this and preceding chapters concerning an approach to a possible solution to the road and street financial problem in Canada. It should be appreciated that the summary is general and not necessarily pertinent to all Governments providing and maintaining roads and streets.

1. Comprehensive studies, predicated upon present and estimated future traffic conditions, should be made to determine, on a long-term basis, our total road and street needs. At least two approaches should be considered - the modernization and rebuilding of existing facilities to permit maximum use of our present plan, and the provision of new facilities to supplement and complement existing roads and streets."

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The present studies made in this area by the Department of Highways should be updated where necessary. The Province could then determine to what extent future grants-in-aid for road and street purposes could be made to municipalities, especially where the grants involve street extensions of primary highways and other arterial city streets, where the motor vehicle users responsibilities substantially exceed 50% of the total. This would also enable the Province to assess the need, if any, for increases in gasoline taxes or motor vehicle licenses, although we feel such an increase is not warranted based on the statistics available. The Province would then be able to establish a policy which takes into consideration the relative responsibilities of motor vehicle users and other taxpayers towards the various classes of homogeneous roads and streets. There is a need to recognize the benefits that roads provide for property owners and business generally, so that it would not be acceptable that the entire cost of roads should be borne by the users. Provincial aid could then be intelligently based on the responsibility indicated by such studies. One would also be able to determine whether "allocation of the motor vehicle user's share of total outlays for roads and streets was in accordance with principles that distribute costs to the various classes of vehicles on an economic basis - Taxes and Traffic".

RECOMMENDATIONS

Our recommendations are -

1. As the revenue from gasoline tax, fuel tax, vehicle and driver licensing fees exceeds the related cost for transportation and communications, it would seem that no further increase in these taxes and fees are warranted.
2. The present studies made in the area of highways, roads and streets should be used to establish a policy which takes into consideration the relative responsibilities of motor vehicle users and other taxpayers towards various classes of homogeneous roads and streets. This would also be used to determine to what extent future grants-in-aid for road and street purposes could be made to municipalities.

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3. If the study reveals that although the original purpose of gasoline taxes, etc., was to finance transportation costs, the tax has now become a commodity tax for general revenue purposes, consideration could be given by the Province to the elimination of refunds of gasoline tax which at the present time result in a reduction of approximately twenty million dollars in tax revenue.
4. We do not feel that a major extension should be made into the field of toll roads in the Province of Ontario as toll roads are justified only if required roads cannot be financed in the usual manner.

I.C.A.O. - SPECIAL TAX COMMITTEE

PERMISSIVE INDUSTRY TAXATION

The public accounts of the Province of Ontario indicated that liquor revenues for the fiscal year ending March 31st, 1962 were eighty-two million, five hundred thousand dollars. This represented a significant percentage of the net general revenue derived by the Province in 1962 and the indications are that it will represent a significant portion of future commodity tax revenue. Although the tax itself is a source of revenue for the Government, one of the initial reasons for the tax was to control the consumption of alcoholic beverages in the Province. We would suggest that the Province consider the extension of this type of commodity tax to the tobacco industry, and also establish a tax in the areas of lotteries and gambling. Each of these areas is to a certain degree a luxury in that one would not consider these as necessary daily commodities as one views food and shelter. We would suggest, however, that the Government must, as a matter of policy, determine whether or not the tax is a tax to produce revenue or to reduce consumption.

In each of these areas the question of social acceptability and public opinion has been prominent in the decision as to what the tax rate would be. One of the features of a good tax in this area, though, is that it should attempt to control the abuses rather than restrict volume. Past experience has provided ample evidence that prohibition per se has never been a successful solution. Undoubtedly public attitude with respect to these areas has changed significantly since the time the tax was first put into effect.

Although we feel these areas are a suitable subject for taxation by the Province, we would suggest that several considerations should be kept in mind as to the levy of these commodity or service taxes. The level and burden of taxation on these products should be related to the present general level of acceptance - this would certainly affect the rate of tax that could be applied. As the liquor and tobacco industries play an important part in the provincial economy and bear themselves a sizable tax burden, the Province must consider the effect of the present and future tax burdens on the growth of these industries. There is no doubt that the

tax burden, or the control factor, plays an important part in the establishment of price relationships of the various products and could restrict the area from management efficiency and normal commercial opportunities for growth through pricing and marketing policy. In short, the effect of the tax should not damage the industry. As in all commodity taxation it is felt that legislation, for example in the alcoholic beverage industry, should not disturb the market and sales position of the industry but should concentrate on any abuses or anomalies apparent in these permissive products.

The present provisions of the law have not eliminated activity in the fields of gambling and lotteries. It would appear reasonable to assume that the licensing of bookmakers and the taxation of gambling would assist not only the provincial revenue but would aid the administration of justice due to the control aspects involved. As amendments to the Criminal Code may be necessary in some instances, plans should be made to work towards a solution with all interested parties, federally and provincially.

Imposition of taxes on the liquor and tobacco industry could be levied at the manufacturer level due to the small number of such distributors in the field rather than by a sales tax at the retail level. If the sales tax remains on these commodities it would seem that some recognition of its existence would be desirable in setting the rates of other taxes or charges on liquor and tobacco.

RECOMMENDATIONS

Our recommendations are -

1. The Province of Ontario should consider the establishment of a commodity tax on the tobacco industry and a service tax in the areas of lotteries and gambling.
2. The level and burden of taxation in these fields should be related to the present general level of acceptance and should attempt to control the abuses rather than restrict volume.

I.C.A.O. - SPECIAL TAX COMMITTEE

INCOME TAXES - CORPORATIONS AND INDIVIDUALS

In the fiscal year of 1962 the provincial corporation taxes provided approximately 16% of the total Government revenue, and the individual income tax supplied in the vicinity of 12% of total revenue. Consequently, both of these items figure prominently in present tax revenues and would be expected to provide a significant share of future revenues. Undoubtedly, as the prosperity of both corporate and individual taxpayers increases, the growth level of these taxes would also increase. It is in the provincial interest, therefore that the incentive to produce for a profit is maintained. We have commented previously as to the future desirability of reducing the impact of income tax in favour of an increase in sales tax revenue through broadening of the sales tax base. Although there may have been some uneasiness during the original introduction of the retail sales tax in the Province, it is working with satisfying results. Provincial policy should favour increasing productivity and the growth of new business ventures. This can be encouraged when there is a preference to levy taxes on spending over taxes on earnings.

I.C.A.O. - SPECIAL TAX COMMITTEE

FEDERAL-PROVINCIAL TAX-SHARING ARRANGEMENTS

The incentive to invest, the ability to consume, and the opportunity for sound economic growth must always be a key consideration to the Province in determining tax policies and rates of tax. It is doubtful that any one province could prosper if it ignored the prospects for co-operation with the Federal Government in fiscal matters in the national interest. It may be obvious to say that we are first Canadians, but at this point, although older concepts of the federal-provincial relationships may be changing, it is vital that the Province maintain a responsibility for the national interest and uses its influence, which is considerable, to eliminate deficiencies in the present federal-provincial tax-sharing arrangements. We recognize that there are constitutional problems and limitations but effective co-operation by all levels of Government is a necessity.

The Federal and Provincial Governments must co-operate in achieving goals of national importance. For example, changes in tax rates effected by the Federal Government for economic reasons might well be cancelled out by offsetting changes in provincial tax rates. This may be particularly serious in the event that it becomes necessary to reduce corporation tax rates to avoid getting too far out of line with U.S. corporate rates, especially if the U.S.A. proceeds with its tax reduction programme. Any significant difference in Canadian and provincial corporate rates over American rates may disturb the present level of foreign capital in Canada. The problem of the form of U.S. investment is in all likelihood a Federal problem and requires little elaboration here. We do not favour foreign investment over Canadian investment; we believe that Canadian-owned business should have an equal opportunity. The importance of foreign investment, however, cannot be overlooked. The best means of encouraging Canadian investment is a lowering of the income and corporate tax rates by the Federal Government. This goal can only be accomplished with the recognition by the provinces that it is necessary for them to hold the line against future demands for a greater proportion of Federal revenues through tax-sharing and grants. Co-operation of Federal and Provincial Governments in restricting the corpora-

tion tax rates may be more difficult than in other fields, such as personal income tax and sales tax where the political unpopularity of these taxes operates as a restraining influence. If in the national interest the Canadian Government reduced corporate rates, we feel it would be short-sighted if the Province raised its rates to cancel out this Federal rate reduction. Although in the short run there would be an increase in provincial revenue, the prosperity of Canada as a whole, and the Province in particular, could be affected adversely.

At the present time the Province administers its own corporation tax of 11% on corporate income. Personal income tax is imposed at rates equivalent to the Federal withdrawal. The Province, however, should keep in mind that if taxpayers altered to a considerable degree the form in which they carry on business, due to tax policy of the Federal Government, these moves would affect provincial revenues as emphasis is altered from corporate organizations to other forms and vice versa. Taxpayers cannot, of course, be prevented from varying the manner in which they arrange their business affairs. However, the Province should participate in all forms of Federal tax sharing so that its income will not be reduced due to any significant transfer.

We would recommend that the Province participate in non-resident withholding tax, special tax on various forms of corporate distributions, and gift taxes. For example, Federal tax statistics indicate that the corporation income tax would yield approximately $1,168,000,000 in 1962-1963, excluding old age security tax. It is also estimated for the same year that non-resident income and withholding tax would yield approximately $120,000,000. The withholding tax, then, is approximately 10% of the corporation tax yield. It is reasonable to assume that the provincial share of this $120,000,000 could be a significant amount. This is even more true due to the fact that recent Federal tax policy may affect considerably the normal flow of payments to non-residents. The high levels of corporation income tax rates, together with increased non-resident withholding taxes on dividends, have been partly responsible for a substantial increase in the

amounts charged by non-resident parent companies to their Canadian subsidiaries for royalties and for interest on funds loaned or advanced to Canadian subsidiaries. Changes of this kind, caused in part by changes in Federal rates of withholding tax on amounts paid to non-resident parent companies could result in a substantial loss of provincial revenue from corporation tax. For example, if a non-resident parent decides to have its Canadian subsidiary transfer money in the form of royalties or interest to the non-resident parent rather than dividends, this would result in a reduced taxable income and correspondingly a reduced yield in the provincial corporation tax.

Based on the existing percentage participation and personal income tax by the Province and the present rate of corporation tax, it seems unlikely that the Province would be seriously affected by choices made by taxpayers as to whether to carry on business in incorporated or unincorporated form, or choices as to the level of the salaries taken by controlling shareholders, etc. It would seem advisable that if any changes are made in the participation in one area, then relatively similar changes should be made in the rate of participation in other areas, as the choices could have important effects on provincial revenues.

We are unable at this time to determine what the possible provincial share could be of tax on corporate distributions. With a possible new policy with respect to the taxation of corporate surplus in contemplation by the Federal Government, we would suggest that it be in the provincial interest to study any contemplated changes as there could be strong reasons for participation in this tax by the Province.

There continues to be duplication of administration and collection in respect of each of the major fields of taxation. This causes difficulty in protecting taxpayers from overlapping tax arising when allocations of taxable income are made between the various provincial tax jurisdictions. Certain taxes by their very nature (for example income taxes, succession duties, sales taxes) are more efficient when administered by a central

collection agency. Any other approach tends to complicate a tax system and places an unnecessarily heavy burden of compliance on taxpayers.

The exemption from federal income tax available to provincially-owned enterprises results in an undesirable inducement to provincial governments to take over privately-owned enterprises. This trend has been apparent in the field of utilities. Whenever any corporation or other body, whether government-owned or privately-owned, enters into business activity, then it should be subject to income taxes. Perhaps a definition of business activity is when revenue is derived from sale of services or commodities to the public, as opposed to revenue derived from taxation. Otherwise, economic erosion of the tax base occurs. The province, as a matter of policy, should discourage through its own laws or its influence in federal legislation, encroachment on private enterprise. This also has application to areas where special incentives are given to different types of business that tend to create inequities. Although once more to a certain degree the federal influence and federal legislation on these areas is quite high, the Province should protest any policy in the taxation field that gives a disincentive to competition. In the long run such disincentives tend to reduce rather than enhance provincial revenues.

The difficulties of co-ordinating tax policies of the Federal Government and those of the provinces and ensuring that they will take into account the overriding national interest and reconcile the conflicting interests of the individual provincial governments and that of the Federal Government requires the full-time services of a permanent joint tax planning staff. This body, of course, would be advisory to a Federal-Provincial conference of ministers, as the Province cannot be expected to release its financial autonomy. Irregular meetings at the political level are not sufficient to serve the purpose. Some body is necessary at a technical level and on a continuing basis. Usually the reports of any single purpose committee in

the field of taxation are full of facts, figures and recommendations that may be too difficult to put into effect at one time. A continuing body, however, would help assure that the results are implemented over a period of time. This type of planning would also help counteract the surprise effect that the present policy of budget secrecy sometimes imposes. To help achieve the above the present Federal-Provincial Continuing Committee on Fiscal and Economic Matters should have a more active influence. This Committee should be allowed to devote the time necessary to consider the fiscal problems that require more attention. The results of their deliberations could then be communicated more frequently to the political level so that there would be a more immediate influence on fiscal matters.

RECOMMENDATIONS

In summary, we would recommend the following -

1. Co-operation of Federal and Provincial Governments is necessary to assure that changes in tax rates effected by the Federal Government for economic reasons will not be cancelled out by the offsetting changes in provincial tax rates.
2. The Province should participate in all forms of Federal income and corporate taxation so that its revenue will not be reduced by changes in Federal tax policy that cause taxpayers to alter the form in which they carry on business. The rate of participation for example in the corporate tax area should be similar to the rate of participation in the personal income tax area; as a result the Province would not be seriously affected by choices made by taxpayers as to whether they carry on business in corporate or personal form.
3. We would recommend that the Province participate in non-resident withholding tax, gift taxes, and special taxes on various forms of corporate distributions.
4. A central collection agency as we have mentioned previously would increase efficiency and reduce duplication of administration, collection, and enforcement costs in the areas of income taxes, succession duties, and sales taxes.

I.C.A.O. - SPECIAL TAX COMMITTEE

5. The Province should discourage through its own laws or its influence on Federal legislation encroachment on private enterprise by Government-owned bodies. It should also recognize that present Federal policy of giving special concessions to particular types of business organizations may reduce the amount of corporate tax revenue that would otherwise be available to the provincial treasury.

6. The Federal-Provincial Continuing Committee on Fiscal and Economic Matters should have a more active influence in assuring that conflicting interests of provincial and federal government bodies are reduced to a minimum. The co-ordination of tax policies by this Committee would benefit the Province and the Federal Government.

I.C.A.O. - SPECIAL TAX COMMITTEE

CORPORATION INCOME TAX

Our recommendations in this section are as follows -

1. Ontario should accept the Federal offer to administer and collect corporation income tax on its behalf, or some other arrangement under which federal and provincial corporation taxes would be administered by a single agency. Whether the body should be under federal control or federal-provincial control is not as important as the desirability of having uniform methods of establishing the tax base and eliminating duplicate administration, recording, collection and appeals. The Province would always be free to add on a percentage supplement if it required to have more income tax revenue from corporations, but the main purpose would be uniformity in the tax base and in the system of administration.

2. From a provincial viewpoint, we cannot recommend the desirability of substantial differences in rates of tax between provinces. Any substantial increase in Ontario corporation tax rates could discourage industry from setting up business in Ontario, or cause present Ontario businesses to transfer their operations to other provinces. Neither can we recommend special incentives to businesses through the use of corporation tax or income tax. Although there might be a short-run benefit to the province that introduced special incentives, it would only be a question of time before all provinces legislated for the same incentives. The net effect would probably be exactly the same from a revenue viewpoint but would damage the present level of co-operation between provincial governments. As can be seen in the Federal legislation in this area, special incentives have tended to complicate rather than simplify the tax structure.

I.C.A.O. - SPECIAL TAX COMMITTEE

3. As was mentioned previously, tax moves by the Federal Government that would stress the benefit of payment of interest, royalties, and management fees, rather than the maintenance of profits in Canada (and eventual payment through dividends) must be watched closely by Ontario if a serious trend develops to reduce corporation profits.

4. Capital and place of business taxes should be discontinued. These taxes represent a minor source of revenue (less than three million dollars in the 1962 fiscal year), and their burden falls principally on companies that are operating at a loss or at less than a reasonable profit. It is difficult to see any major justification for the imposition of taxes of this nature. Perhaps a certain amount of this loss of revenue could be recaptured by an increase in annual filing fees, although it would not be a significant portion of the present capital and place of business tax. The present imposition of capital and place of business tax places an unnecessary impediment in the way of acceptance of the Federal offer to collect corporation income tax.

5. Short of complete integration with the Federal corporation tax administration, the present provincial administration of corporation income tax has been as satisfactory as might be reasonably expected. However, uncertainties develop each year as a result of changes in the Federal legislation, which cannot be immediately incorporated into the provincial statute. Other criticisms of the present Corporations Tax Act include the high effective rate of interest charged in respect of deficiency instalment payments, and the absence of any time limit on reassessments. We refer the Ontario Committee on Taxation to Appendix 1 which outlines the recommendations submitted by the Taxation Committee of the Institute of Chartered Accountants of Ontario in October 1962. These cover in more detail certain of the complications existing in the present Corporations Tax Act, some of which have not yet been adjusted.

I.C.A.O. - SPECIAL TAX COMMITTEE

INDIVIDUAL INCOME TAX

The present arrangements under which the Federal Government collects this tax on behalf of the Province appears to be quite satisfactory. We feel that a number of the points raised previously in the category of corporation income tax are equally relevant with respect to individual income tax. The trend, in other words, should be away from higher rates of income tax that discourage individual incentive and increase the incidence of attempts to avoid payment of tax. The present level of this tax in Ontario is satisfactory, but once more, a reduction of rates at the Federal level would in turn benefit the Province due to increased individual incentive to produce higher profits.

I.C.A.O. - SPECIAL TAX COMMITTEE

SUCCESSION DUTIES

Presently, the Province of Ontario collects its own succession duties and in the fiscal year 1962 the duties collected of $40,397,000 represented 4% of the total provincial revenue in that year. It is felt that the present level of rates in the Succession Duty Act, act as a disincentive. Consideration should be given to the fact that a number of businesses are undoubtedly disposed of to avoid the problems occurring on the death of a wealthy decedent who has the major portion of his estate tied up in a family business. The tax itself can hardly be considered to be a major revenue earner. And if the present system were made more stringent, the likelihood is that wealthy residents in the Province would simply leave the Province before the date of collection arrived, although the average citizen cannot afford this form of tax avoidance. From an economic viewpoint the accumulation of wealth in family businesses leads to a stronger business population in the Province. It is only when businesses are able to grow over a long number of years, perhaps by passing from generation to generation, that there is enough risk capital available for new ventures and expansion of older businesses. Any tax which causes a resident to look for means of disposal of his business, either to large public companies or to foreign buyers, conflicts with the long-run growth productivity that the Province is attempting to encourage. A continuation of the present system would probably produce in the long-run ill effects and economic loss as wealthy individuals attempt to escape the tax.

Some people have suggested the elimination of the succession duty. Although we feel such a step would be too drastic (and politically unpopular), we do support an increase in the exemptions and a lowering of the tax rates. Basic exemptions should take into consideration that in the majority of cases the standard of living of the family of the deceased will suffer a reduction. The Province should recognize that the present day cost of living requirements are far greater than the level existing when the original exemptions were established. Not only is the family deprived of the major income earner, but a high succession duty reduces the assets available to the family even

more. It is interesting to note that the Estate Planning Council of Toronto pointed out that estates valued at less than one hundred thousand dollars account for 56% of all taxable estates for Federal estate tax purposes and yet produce only 7.7% of the estate tax revenue. Although we do not have the corresponding figures for the Province of Ontario, it is logical to assume that a similar position exists. We would recommend that this figure of one hundred thousand dollars be used as a starting point for the basic exemption and in the light of increases in costs of living over the years, the Government should be prepared to increase this basic exemption from time to time.

The substantial differences and the principles underlying the Federal Estate Tax Act and the Ontario Succession Duties Act result in serious inequities. The estate tax principle facilitates estate planning and proper provision for the payment of such taxes. Duties levied at rates dependent on the relationship of the deceased to beneficiaries, and the amounts passing to each beneficiary, make it much more difficult to estimate the potential liability and to ensure that proper provision is made to meet the duties that would be payable in the event of various contingencies, such as prior death of an intended beneficiary. The simplest arrangement would be for Ontario to rent this field to the Federal Government. The simplification and improvement of our tax system resulting from the elimination of two different methods of inheritance tax would seem to far outweigh any advantages that may accrue to the Province through retaining control over the imposition of its own separate succession duty. While it is recognized that the Ontario revenue from succession duty exceeds the revenue that would have been derived under the rental agreement proposed by the Federal Government, it may not be unreasonable to expect that the Federal Government could be persuaded to increase the rental payment offered to the Province to 100% so as to permit those provinces now levying their own duties to vacate the field with little loss. This increase of rental would also compensate the Province for the increase in exemptions and lowering of rates which we recommend, as applicable to the succession duty if it continues and to the estate tax if it supersedes the succession duty. Consideration might also be given to some method of granting the

provinces participation in Federal revenues from gift tax, since this tax is accepted in practice as an effective prepayment of estate taxes.

RECOMMENDATIONS

Our main recommendation is that the Province of Ontario rent the field of succession duties to the Federal Government. We would also expect the Province to use its influence to cause the Federal Government to increase the rental payment offered to provinces to 100% of the estate tax that the Federal Government would levy.

If Ontario does not vacate the succession duty field, there are a number of changes that should be made to bring the Succession Duty Act into closer conformity with the provisions of the Federal Estate Tax Act. Although we recognize that Ontario is restricted constitutionally in several aspects of this field of taxation, it is felt, however, that the achievement of the maximum degree of uniformity is of prime importance, and that, wherever possible, the Ontario legislation should be brought into conformity with the provisions of the Federal Estate Tax Act. An exception would be in the rules of Situs where we feel it is the Federal authorities who should revise their Act to conform with the common law rules for Situs. The following points should be taken into consideration -

1. All estates under one hundred thousand dollars should be exempt from tax. A further exemption of twenty-five thousand dollars should be provided for each child. We would also recommend that the present rates of tax in effect be reduced significantly.
2. A study should be made by the Province of Ontario to determine whether or not it would be advisable to provide an exemption of the greater of one hundred thousand dollars or one-half of the estate where the estate passes to a spouse. Some taxpayers in Canada are able to take advantage of the principle of community of property and it may be advisable to make this application available to all citizens.
3. The determination of aggregate taxable value should be calculated in the same manner as for Federal tax purposes. For example, the treatment of

life insurance, joint property and gifts made more than three years prior to death, should follow the Federal estate tax rules.

4. Rates of tax imposed on each succession should be determined by reference only to the aggregate taxable value. This would greatly simplify the problems of estate planning.

5. Where one of the assets in an estate is a corporate business, the valuation of the shares for duty purposes should take into consideration the fact that the removal of the undistributed income of the corporation could result in substantial income tax cost. This tax cost is incurred whenever assets must be removed from the business to provide for the payment of succession and estate taxes. Also if the business were sold to raise funds, the buyer would undoubtedly pay less than the apparent value of the shares due to the income taxes that he would have to pay on the eventual distribution of company surplus. The Government should also allow an extension of time to pay succession duty where one of the major assets is a family business. In short, the succession duty should not be the major cause that results in a going business being liquidated or sold. The Province of course must be protected as to the tax owing to it and to this end, the shares or assets of the business should be given and accepted as security in some form to the Province to protect the debt owing to the Province. Interest would also be charged.

6. Duty should not be imposed on transmissions of property situated in other provinces that have rented this field to the Federal Government, even though such property passes to a beneficiary resident in Ontario on death of a person domiciled in Ontario. Ontario's present treatment of transmissions offends against the principles of reasonable allocation of taxation powers between provinces (which have been recognized in agreements entered into with Quebec and British Columbia), and results in an unfair burden on taxpayers affected.

7. Provision should be made for relief from tax in the case of quick successions. There would seem to be little justification for subjecting property to duty for a second time in the event of the death of the

beneficiary within five years of the first death. Complete exemption should be allowed for property passing in a second succession within five years, with a reducing scale of exemptions in the case of deaths occurring within five to ten years from the first death.

8. Valuation should be uniform by the Province and by the Federal department, perhaps by some method of joint evaluation.

9. Where one of the assets of an estate is a pension, annuity, or life interest it would be more equitable to value this asset on a present value basis taking into consideration the life expectancy, and collect a tax as payments are made to the beneficiary from year to year. The tax should then be related to the actual amounts of the pension, annuity, or life interest received by the beneficiary. This would avoid the serious problem that can result where such a pension or annuity is taxed on the basis of a long life time calculation for the life tenant; for if the life tenant dies at an earlier date than the calculation provides, there is no way of recovering the higher tax that would have been paid under the original calculation.

10. The present method of taxing foreign non-residents of Ontario, who hold property in Ontario, is difficult to administer and no doubt leads to avoidance. A simpler method would be a treatment similar to that used under the Federal Estate Tax Act where, the value of the property situated in Canada at the date of death, less debts or encumbrances secured by or charged on the property situated in Canada, is subject to a tax of 15%.

I.C.A.O. - SPECIAL TAX COMMITTEE

CAPITAL GAINS TAX

We have considered the possible use of a capital gains tax, and wealth tax. However, we feel the revenue from such a method of taxation could not significantly increase the provincial revenue. U.S. sources indicate that such a tax is expensive to collect due to the complications involved. The yield from the capital gains tax in the U.S.A., which even includes some items that are taxed as income in Canada, is quite nominal. Further, if such a tax were imposed, the Canadian position in the field of investments would actually deteriorate due to the fact that this is one area where there presently is an advantage over American investors. As the American investor is subject to a capital gains tax in the U.S.A., the imposition of such a tax in Canada would eliminate the advantage that the Canadian investor presently has in this area.

I.C.A.O. - SPECIAL TAX COMMITTEE

FEDERAL GOVERNMENT GRANTS-IN-AID AND CONDITIONAL GRANTS

In 1961-1962 the Federal Government paid out to Ontario in various conditional grant programmes a total of $187,000,000. These grants covered at least forty-four different programmes. They ranged in size of contribution by the Federal Government, from $37,000 for "Agricultural Lime Assistance" to $104,500,000 for hospital insurance. Details of the amounts of contributions in the various fields is shown in Table 3.

Table 4 shows the contributions by the Federal Government to Ontario in the years 1956-1957 to 1961-1962 inclusive, broken down between the various departments but not in detail within each department. The extent to which these programmes have grown is evident by the fact that in 1956-1957 the total contributions to Ontario were only $25,400,000 whereas in 1961-1962 they totalled more than seven times as much, $187,000,000.

In practically every case these programmes were initiated as a result of a Federal offer to the provinces. In most cases, when provincial politicians become aware of such an offer by the Federal Government, it becomes, for them, politically unwise not to accept the offer although such acceptance often entails substantial increases in provincial expenditure at a time when it may be doubtful that such increased expenditure is wise.

Table 5 lists some thirty-nine programmes that are now being carried out and indicates that in almost every case the Province is contributing up to 50% of the total cost of a shared-cost programme. In many instances, the expenditure at the provincial level of one dollar is required in order to be reimbursed by the Federal Government with fifty cents. There is no control by the Federal Government or anyone else, except that in certain instances there is a maximum dollar value placed on the Federal contribution, and in the case of hospital insurance, the Federal contribution is based on a mathematical formula related to the number of people eligible for hospitalization. When such a programme is introduced without careful consideration, the result can

be a loss of effective control and the uneconomic spending of the taxpayer's money. The area of hospital insurance is an example where the imposition of a new grant policy by the Federal Government caused the Province of Ontario to replace the former hospital administration with a new Hospital Services Commission. Before the introduction of this programme if a hospital board was faced with a deficit, the board had to raise the money to cover it; the possibility of a deficit being suffered tended to reduce inefficient and unnecessary spending. The present basis provides that the Province must make up the difference between authorized hospital costs and the revenue from user premiums and Federal contributions. This new programme may have been responsible in part, for the present increase in operating expenditures in maintaining existing hospital beds in which, the increased expenditures are rising at a far greater rate than the rise in the consumer price index. It would appear that where a new social programme is put into effect, the Province should have sufficient time made available to assure that satisfactory controls are established and that the system of grants are subordinated to the provincial programme.

In many cases the programmes involving Federal grants-in-aid to the provinces are outside the areas of activity exclusively reserved to the Federal Government under the Constitution. It is a matter of concern that so many of them appear to have been instituted because of political ambitions of Federal politicians and are undertaken by the provinces mainly because it would be unwise politically not to accept them. One wonders whether a better system would not have evolved had the Federal treasury withheld offers of grants-in-aid totalling more than half a billion dollars and correspondingly reduced its exploitation of the direct tax fields, so that if the provinces wished to institute any or all of these programmes each would have been able to raise the funds from its own people directly ; the programmes would have been related to the taxpayers' approval or disapproval of the necessary taxation measures that would have resulted from the introduction of such programmes and thus there would be effective control of the expenditure these programmes require.

I.C.A.O. - SPECIAL TAX COMMITTEE

RECOMMENDATIONS

We would recommend that the present type of grants system should be re-organized to allow a basic grant to the provinces to equalize whatever level of minimum services is felt necessary by the Federal Government. In certain cases if the Federal Government considers a programme to be essential, such as the Trans-Canada Highway, then it should pay the entire cost. The money should be turned over to the Province who would then proceed to use it for the purpose it was designed for. Or when more money is made available, such as the present Municipal Loan Improvement Fund, once more the Federal Government should pay the money over to the Province. The Province could then determine what purposes the Federal Government wished the funds used for and proceed to fit the programme into the general programme of administration in this field that the Province would like to exert.

There would obviously be an excess amount of revenue that up until now has been paid to the Province in the way of grants. This would enable the Federal Government to give the Province a greater share of the corporation and income tax revenue. In this way the Province would be responsible to determine the best method in which the revenues should be distributed or spent. On the other hand as we have noted previously, this excess revenue could be used to cause a direct reduction in corporate and personal income tax rates at the Federal level which, we feel, could be used as a substantial incentive to stimulate the economy.

I.C.A.O. - SPECIAL TAX COMMITTEE

GRANTS-IN-AID BY ONTARIO TO MUNICIPALITIES AND SCHOOL BOARDS

In 1954 total assistance to municipalities and school boards through general legislative grants for education, hospitals and roads amounted to $127,600,000. Ten years later, the 1964 budget indicates that the total will almost quadruple and according to the estimates presented in the budget statement of the Honorable James N. Allen on February 7th, 1963, will amount to $508,600,000. A comparison of a breakdown of these contributions by Ontario to the municipalities and school boards is shown in the following figures.

	1954 (Millions of Dollars)	1964 (Millions of Dollars)
Education	64.0	291.4
Hospitals	19.6	56.0
Roads	28.1	87.3
Miscellaneous	15.9	73.9
	127.6	508.6

The biggest single increase in grants by the Province to the municipalities has been in the field of educational grants. These grants are based on a series of measures, but mainly relate to the average property assessment per pupil of average daily attendance. Where the assessment per pupil of average daily attendance is large, the grant is correspondingly small, whereas when the assessment per pupil of average daily attendance is small, the grant is correspondingly large. Thus the percentage of costs in elementary, secondary, and vocational schools borne by the local taxpayers range from about 70% of the total in the Metropolitan area to 5% in small rural areas. Much of the system under which the grants are calculated is designed to meet the unalterable provisions of The Separate Schools Act of 1863 which, under the articles of confederation, cannot be amended.

In 1961-62 and 1962-63 a new programme of educational grants was introduced, Residential and Farm School Tax Assistance Grants, which are payble on the condition that in establishing the mill rates for school purposes in each school board area there shall be a differential of 10% between the commercial and industrial tax rate on the one hand, and the residential and farm property

tax rate on the other hand. The result of this proviso is that commercial and industrial property pays school tax at a rate approximately 10% higher than the rate applicable to the resident and farm property.

In addition to these educational grants, the Province pays to municipalities unconditional grants that are measured at so many dollars per capita in each municipality. Again in this case the municipal general rate is established on the total property assessment both commercial and industrial, and residential and farm, before deducting from the total budget the amount of the unconditional grant. The mill rate thus established becomes the mill rate applicable to commercial and industrial property. The balance of the budget that is allocated for taxation of residential and farm property is then reduced by the amount of the unconditional grant and the balance is used to establish the mill rate applicable to residential and farm property.

Under the present grant system established by the Province, there are now required to be four separate tax rates in each municipality in which a school board is involved. They are as follows -

1. The school tax rate applicable to commercial and industrial property.
2. A school tax rate approximately less than the commercial school tax rate by 10% applicable to residential and farm property.
3. A general municipal tax rate applicable to commercial and industrial property.
4. The general municipal tax rate somewhat less by reason of the unconditional grant which is applicable to residential and farm property.

One reason given for the differences between the tax rates that apply to commercial and industrial property and those that apply to residential and farm property is that taxes payable by commercial and industrial enterprises are deductible from income for income tax purposes whereas in the main, residential and farm property taxes are not so deductible. Our view is that the differential is simply a tendency to impose a greater rate of tax on a taxpayer who is basically a non-voting taxpayer.

I.C.A.O. - SPECIAL TAX COMMITTEE

There would seem to be in the case of municipalities far better control in respect of municipal expenditure with regard to programmes that are given grants by the provincial authorities than in the case of provincial expenditures with regard to federal-provincial joint programmes.

As can be seen from the previous table, education grants have risen from $64,000,000 in 1954 to $291,400,000 in 1964 (estimated). It is recommended when grants such as these are made, that they should be tied to a per capita basis. Grants that are related to cost have a general lack of control, as the grant inevitably increases due to the higher level of increased cost. A fixed grant, or grant per capita, means for example, that the marginal cost or excess cost in the field of education would have to be borne by the local authority. Although this would result in a larger percentage of school taxes being raised locally in certain areas, this would seem to be the only satisfactory method of keeping control of the area of cost, otherwise the excess is fed back to the Province through requests for increased grants. If the deficit is charged back to the taxpayer, in effect, the taxpayer could be more critical of excess spending. Otherwise, the excess inevitably becomes covered by provincial grants due to the pressure of local politicians.

There is always a problem when responsibility for an area of expenditure is shared by several levels of Government, in that neither level seems to exert as much care as it would, if it were responsible for the entire area itself.

It is felt, that while some system of per capita grants in education is necessary, recognition should be given to the fact that a grant per room that is reasonable for a large municipality, may be too great for a rural district. For example, whereas a grant of $20,000 per room is more than adequate for a rural school, it is usually not sufficient for the costs that are incurred in building a large multi-room unit in an urban municipality. Perhaps it may be politically unwise to recognize that rural school costs in building are lower than urban school costs. But it would certainly be more profitable if

municipalities of any size refused to accept a higher level of grants based on this procedure as the revenue that goes to the Province from the municipality (by means of larger sales taxes, income taxes, etc., on its taxpayers) does not flow back to the municipality in the form of grants, as a certain portion of this inevitably goes to the rural municipality. It would appear then, that a system of basic grants at a reasonable per capita level would be justified; the municipality should then have the resources to raise the difference in revenue required to cover the municipal school costs.

RECOMMENDATIONS

We feel that the following should receive consideration -

1. A study should be made by the Province as to the validity and justification of the present differential in taxes paid by commercial and industrial property over taxes paid by residential and farm property. If the study does not substantiate a clear case in favour of the differential, then the present basis should be revised.
2. Any system of grants-in-aid to municipalities and school boards should be based on a per capita basis or some fixed amount. This would mean that any excess expenditure would be the responsibility of the local authority, who would then seek means to pay for this out of local revenues or attempt to provide a greater control on local expenditure.
3. The Province should resist the trend towards higher educational grants as the monies flowing out of the cities through general sales and income taxes to provide for these grants do not flow back in equal amounts to the city to cover education costs. If the city were made more responsible for raising its increased requirements through its own resources, there would be direct pressure for control exerted by a local body that would tend to increase efficiency and dissuade overspending. The closer the revenue-raising function is to the point of payment, the more likelihood there will be for effective cost control.

I.C.A.O. - SPECIAL TAX COMMITTEE

HOSPITAL SERVICES COMMISSION PREMIUMS

At the present time the area of hospital insurance is under the administration of the Ontario Hospital Services Commission. Under the Federal Hospital Insurance and Diagnostic Services Act of 1957, the Federal Government contributes approximately 45% of the cost of specified hospital and diagnostic services provided under provincially administered hospital plans for both in-patients and out-patients. Premiums are charged to Ontario residents under a compulsory payroll deduction plan and voluntary enrolment at the rate of $2.10 monthly for single residents and $4.20 monthly for family residents.

Table 6 indicates that the total expenditures for hospital costs, operating expenses, and mental institutions allocations have risen from $165,089,000 in 1959 to $254,019,000 in 1962. The portion of the cost paid for by the residents of Ontario through premiums has decreased from 43.8% of total revenue in 1959 to 36.2% of total revenue in 1962. The provincial share has risen accordingly from 11.5% in 1959 to 18.8% in 1962. The level of federal contributions have remained reasonably stable at 45%. There are other items, such as non-allowable costs and certain revenues not included in the above figures as a matter of policy, but we do not think that these additional amounts would alter our observations and recommendations.

There is no doubt that a certain amount of the rising increase in costs is due to an upgrading of the hospital service from prior levels which were deficient in many respects. An improvement in the standards of hospital care will invariably increase the cost of providing that care. And as the number of hospital beds increase and the size of the population rises, there would be a growth in hospital costs to accommodate these conditions. Nevertheless, these costs are rising at a far greater rate than the rise in the consumer price index. The per capita increase in cost is also rising significantly. From a provincial viewpoint, health costs rose from $55.4 million in 1953 to $238.6 million in 1963, an increase of 331%. Although there were obvious drawbacks in the system existing prior to the Ontario Hospital Services Commission entry into the field, the prior system did provide a

pressure on the boards of governors of hospitals to recognize that deficits in operations would have to be raised from current hospital charges to patients, or failing that, special drives. We do not suggest a return to the old system. We would like to point out though that the control aspects present in the prior system had much to commend it.

In the Glassco Royal Commission report to the Federal Government, certain comments on hospital programmes and the federal-provincial programme in particular, are pertinent in this discussion. In particular, on page 216 - Services for the Public, the report states "The second matter of material financial consequence to the Federal Government, which falls within the discretion of the Provinces under the agreements, relates to the type of new hospital accommodation being constructed. In the absence of any uniform planning approach, your commissioners regard the present arrangements as being wasteful of public money. They encourage the continuing practice of building acute-treatment hospital beds to mediocre standards, rather than the selective building of beds to meet specific purposes - chronic and domicilary care, general treatment, teaching and research. ... Proper planning in this field involves not only the avoidance of duplication of expensive facilities, but the provision of hospital and patient care facilities at various levels of cost and completeness of service, so that the people of Canada have access to the appropriate facility for each type of case. In Canada at present, there is heavy spending for the building of acute-treatment hospitals, more on the basis of local pride and initiative than on the planned development of particular areas as a whole. Thus, open-hearted surgery, a most costly activity, is being projected for virtually every large acute-treatment general hospital. There is no real need for such duplication of facilities. Nor are there sufficient trained physicians to operate them."

"One result is a variation between Provinces in the payment for diagnostic costs on an out-patient basis. Provinces that refuse to cover such costs in their schemes do so on grounds of economy, but they may as a result incur equal or greater costs, both capital and operating in nature, through the

pressure for hospital beds caused by patients who unnecessarily enter hospital to obtain free diagnosis. It may, in this context, be significant that your commissioners are credibly informed that Canadians are currently using hospital beds to a degree 50% greater than in the United States and at about four times the rate prevailing in the United Kingdom."

From a provincial viewpoint the revenue derived from premiums from insured residents is unrealistically low. In other words, the Province is bearing a share of costs which in equity should be borne by the consumer. "The nearer the point of charge is to the consumer ... the less is the risk of economic distortion resulting from the introduction of the tax." (Quote from Study by Dr. C. Campet for O.E.E.C.). There is no indication that the rate of increase will decelerate in any way. Further, the fact that the rate for a family is the same regardless of the number of children, would not reflect the increased portion of the population in the under-age-16 age group. While we do not feel competent to comment as to the exact type of rates that should be established, we would suggest the following policy in deriving this source of revenue.

RECOMMENDATION

The Ontario Hospital Services Commission should operate as a semi-independent body similar to the Workmen's Compensation Board. A fixed level of grants will naturally be received from the Federal Government. We would also suggest that the Province contribute either a fixed minimum grant per day or grant per bed that it feels necessary for the minimum level of hospital services that it deems proper, and that is not more than 10% of hospital costs. We would recommend that some minimum portion, say 45% of hospital costs be paid by premiums from the residents of Ontario. The Commission itself would then have the responsibility of fixing the levels of the premiums. This would be similar to the responsibility exercised by the Workmen's Compensation Board or the Hydro-Electric Power Commission. There is no doubt that an increase in hospital premiums would make the public more conscious of hospital costs. This awareness would be beneficial

as the Ontario Hospital Services Commission would be under more pressure to increase the levels of efficiency of the system to an even greater degree. In principle, then, there must be a return to a basis of greater control of costs. Otherwise, Government revenues from this source will be unable to cover the rising costs in this area.

I.C.A.O. - SPECIAL TAX COMMITTEE

NATURAL RESOURCE TAXES

Apart from land taxes, and certain other fees and licenses which are mainly permissive or regulatory in their nature, provincial revenues from natural resources are generated from impositions on operators for direct benefits received by them in goods or services. They are essentially a royalty - in the case of mining and logging taxes based on an arbitrary determination of profits available for taxation, and in the case of timber dues based on fixed charges per unit of product dependent on quantity and quality.

A comparison of the revenues with the relevant departmental expenditures suggests the impositions are made on a "what the traffic will bear" basis, rather than being determined by economic considerations of the industries concerned. This does not preclude the possibility that the basis now used does not result in an economically sound assessment. To be economically sound the revenue from natural resources should be at least sufficient to cover -

1. The cost of collection.
2. The cost of departmental administration.
3. The cost of replacement, e.g. timber (which would include the cost of supervision until maturity of new growth).
4. The determined value of irreplaceable resources, e.g. mineral (this being based on the principle that natural resources belong to the people of the Province as a whole).

   Additionally, where raw material is produced and used commercially, its commercial value should be taken into account, e.g. mineral and timber with metals, newsprint and lumber as end products.

The first two items listed above are clearly covered, but there does not appear to be any study available which provides any factual data on the remaining items.

I.C.A.O. - SPECIAL TAX COMMITTEE

MINING TAX

Ontario's mining tax is really a royalty, but instead of being based on a unit of product, is determined on a basis of the profits of the mine. This approach is satisfactory since it effectively provides for an amount to be collected which will cover all the items referred to in the general comments. The benefit of a tax based on profits is that the economic worth of the ore is readily determinable by its profitability to the operator. However, in Ontario, the method adopted in establishing "profits" for mining tax purposes is entirely arbitrary and does not fall into any category of "accepted accounting practice". Profits are determined by taking the gross receipts from the mine output - or alternately, the market value at the pit's mouth (appraised by the mine assessor) - and deducting certain, but not all, the costs applicable to the cost of the ore until it is raised to the surface, transportation, and some administrative costs. The arbitrary aspects are further extended by virtue of the fact that regulations covering the administration of the Mining Act have never been issued. The determination of application, method and amount are solely in the hands of the mine assessor, and the success of an appeal against his assessments is doubtful, due to the broad powers given to him under the act.

In determining the profit on which the mining tax is calculated, the Ontario Mining Tax Act does not recognize as costs -

1. The preproduction costs of developing the mine (actual amounts laid out) prior to its coming into production.
2. Exploration costs of previous properties not yet proven to be productive.
3. The costs of capital monies - i.e., interest on monies invested (either as capital or monies borrowed as debentures, etc.).
4. Replacement of capital through exhaustion of the mineral ores.
5. A portion of administrative expenses where the head office is located other than on the mine property.

Nor does it recognize in a factual manner the profits earned in the milling and refining processes when these are carried out by the mine operator. To explain - a mining company selling its ore at the pit's mouth to a milling

operator or refinery, has the pit's mouth value established at the time of the sale, and at that point the mine assessor can take his yardstick of allowable expenses and determine what is called a "Mining Profit" upon which the tax at applicable rates can then be calculated. However, when the mine operator mills his ore the mine assessor's approach is quite different. It can readily be seen that an efficient milling operation is greatly penalized in comparison with a poor milling operation as a poor grade of ore processed efficiently can produce the same rate of profit per ton as a better grade of ore processed less efficiently. The application of the tax in the manner described tends to encourage inefficiency and an uneconomic operation instead of encouraging efficiency.

Because of the method used in determining taxable profits under this act, a further inequity arises when federal income taxes are calculated. Under the Income Tax Act - Canada, mining taxes are allowable as an expense when determining profits subject to tax. However, under the regulations pertaining thereto, the amount of mining tax allowable is limited to that amount which would be payable on the income declared for federal income tax purposes. It, therefore, becomes apparent that a company could quite readily pay a substantial mining tax on a profit determined by the mine assessor which could conceivably be entirely disallowed under the federal regulations, in which a more realistic approach to the meaning of "profit" is taken.

The reported revenue from mining profits for the year ended March 1962 was $15,444,000 and from all other sources $1,272,000 for a total of $16,716,000. Its expenditures against this total amounted to $1,778,000. Its capital receipts were $41,000 against capital expenditures of $1,762,000 - all paid to the Department of Highways for mining and access roads. It should also be pointed out that there would be direct grants to the municipalities in which the mines are located, and in the 1963 fiscal year this may be as high as $5,250,000. In this sense part of the mining tax is, in effect, a municipal realty tax. The mines are normally exempt from municipal tax but we would suggest that a municipal realty tax should be levied separately and the mining tax reduced accordingly. There does not appear to be a record

indicating if the excess of revenues over expenditures is an amount determined by economic theories as being a proper valuation of the mineral depletion, or if this is solely an amount required by the Government from this department to help defray excess expenditures in other departments.

RECOMMENDATIONS

We would recommend then that -

1. The present arbitrary method of determining mining profits for mining taxes be eliminated, and a tax based on the realistic profits of a mining company's overall operation in Ontario, as shown on its financial statements adjusted to corporation tax requirements, be instituted, providing specifically for depletion through a calculation based on the most favourable of a percentage of profits or a unit of production (cost depletion).
2. Mining companies pay municipal land and other taxes as may apply, since these should not be determined on a basis of the profitability of the property; such taxes to be deductible expenses when determining the profits of the company for mining tax purposes.
3. Adoption of the foregoing method will eliminate the necessity of the issue of complicated regulations to govern the imposition of the tax. If these recommendations are not put into effect at an early date, it would be essential that adequate regulations be issued in the meantime, so that profits could be determined in accordance with set rules rather than departmental discretion.

I.C.A.O. - SPECIAL TAX COMMITTEE

LOGGING TAXES

The forest industry is one of the basic industries of the Province of Ontario. Under proper methods of operation, which are subject to the control of provincial authorities, there need be no depletion of the natural resources of the Province. On a sustained yield basis the industry may be considered comparable to agriculture rather than mining. In 1957 the Canadian Tax Foundation completed a detailed study under the direction of A. Milton Moore, of the economic effects of taxation and the regulating of the Crown forests by the Provinces, the results of which have been published under the title "Forestry Tenures and Taxes in Canada". This study would indicate that there is no justification for the logging tax unless it is to take the place of all or a portion of the Crown's stumpage charges. In effect, this tax discriminates against the forestry industry by imposing the weight of tax greater than that borne by commerce and industry in general. It would also appear that the present tax reaches beyond logging operations in Ontario to processing and other operations which do not constitute logging, and in some cases, to the profits of associated companies that may be earned outside of Ontario. There are other features of the present logging tax which are open to objection as well.

For practical purposes the arbitrary method adopted for determining profits subject to mining taxes have been followed in determining income subject to logging taxes.

Effective 1963 the logging tax rate was raised to 10%. Of this amount two-thirds is allowed as a tax credit from the federal income taxes, and one-third is allowed as a deduction from Ontario corporation taxes. The deduction of 100% of the logging taxes from the combined federal and provincial corporate income taxes effectively eliminates the major inequities which have been cited as the subject of complaint. So far as the tax position of the Province is concerned, it receives effectively full corporation income taxes on logging activities, plus a 6-2/3% logging tax paid indirectly by the federal taxing authorities which allows this as a deduction from the taxes otherwise payable by the taxpayer. Because of the method followed in determining

logging profits, it is possible for a profit to be earned subject to logging taxes, and at the same time, a loss to be sustained for corporate income tax calculations. The inappropriateness of a special tax on the income of the logging industry is clearly acknowledged by virtue of the fact that logging taxes are allowed in total as a combined deduction from federal and provincial income taxes.

RECOMMENDATIONS

In its recommendations for consideration by the Provincial Treasurer made by the Ontario Institute's Taxation Committee in October 1962, the repeal of the logging tax was recommended. The foregoing outline suggests that in Ontario the only real reason now existing for logging tax is that Ontario benefits by a 6-2/3% allowance made by the federal taxing body on the logging profits. We recommend that the logging tax should be repealed and a grant from the federal authorities of an appropriate amount be sought to replace the allowance, thus eliminating the administrative cost of the Act both to business and Government, as well as the inequities arising from arbitrary determinations of logging profits.

I.C.A.O. - SPECIAL TAX COMMITTEE

TIMBER DUES, BONUSES, ETC.

The bulk of revenue in this category is from Crown dues in respect of saw-logs measured as board feet or cubic feet; pulpwood in cords; piling and poles in cubic feet; fuel wood in cords and fence posts and railway cross-ties by number or in lineal feet. Other sources of revenue are fire-protection charges, ground taxes and local land transfer fees. The rates of Crown dues run from 1¢ per lineal foot of fence post to $5.00 per M.B.M. of specified types of wood.

Actually, apart from the lesser amounts collected from ground and transfer taxes, the charge can scarcely be referred to as taxes. Fire-protection taxes represent merely a partial recovery of overall fire-protection costs of Ontario's forests, and might be construed more as an insurance premium charge. Crown dues, based on quantity and quality, and the use to which the timber is to be put, are essentially a raw material charge for product use. The rates established must be economically significant to permit Ontario's industry to compete on wider markets for its end product of lumber, newsprint, etc.

It is stated that the present method of assessing Crown dues on timber actually used permits operators to take only the most profitable timber from the stands from that particular operator's point of view, and results in quantities of other useful timber being allowed to remain untouched.

The rates of Crown dues can conceivably be used to encourage or discourage the use of one or the other type of tree; this is not a matter of taxation, but of forest preservation. However, a method of dues determined on a basis of timber available would appear to be a sounder means for the Province to use to recover full value for its Crown timber stands.

We would recommend that the method on which the dues are presently applied be reviewed so that more revenue would enure to the benefit of the Province from the same amount of standing timber, by using timber available as part of the yardsticks on which to base the dues.

I.C.A.O. - SPECIAL TAX COMMITTEE

MUNICIPAL TAXATION - REAL PROPERTY AND BUSINESS TAXES

Taxes on real property constitute approximately 73% of the total of municipal revenues in Ontario. Provincial subsidies, paid directly to municipal corporations, amount to 14% and all other revenues provide only 13% of total requirements. These proportions have not changed significantly since 1938. In recent years there has been a slight increase in the contribution made by provincial subsidies and a correspondingly slight decline in the contribution of real property taxes. Nonetheless, real property taxes have been and will likely continue to be the main source of revenue for both general and educational purposes. A pre-determined portion of the property tax levy is raised for educational purposes and is paid over to the school boards upon requisition. While the property owner pays one effective tax levy which bears as one charge upon each individual property, the factors which affect the rate of tax for general municipal purposes and the rate of tax for educational purposes are substantially different.

The municipal portion of the tax is determined directly by the costs of municipal administration and of the provision of municipal services. These costs are, in turn, largely pre-determined by the location, urbanization and economic development of each municipality and the wishes of its residents. The school levy is partially affected by the local environment but is more significantly affected by academic and physical standards determined by the Province and by the size and profile of the local school population (as distinguished from the local population as a whole). The educational levy thus is not essentially responsive to local options. Trends apparent in the incidence of the municipal property tax over the past 25 years have not been of equal significance in respect to these two components. We refer the Committee on Taxation to Appendix II for detailed statistics.

Since 1938 total property tax revenue has increased from $115,003,000 to $689,860,000, or 600%. General levies increased 500%, while education levies increased 800%. Education constituted 34.1% of the 1938 total tax requirements and 45.1% in 1962. The cost of education has become a main

cause of increase in municipal taxes. On a per capita basis the property tax has increased 323% since 1938 but if the effect of price changes is eliminated the increase is reduced to 68%. Furthermore, in relation to personal income, it may be shown that property taxes per capita have actually declined in the 25 years preceding 1962. The tax burden per $1,000 of assessment (in terms of constant 1949 dollars) has also actually declined from $60.19 in 1939 to $49.10 in 1962.

In respect to these observations of the total tax, the effect has been accentuated in the case of the education levy in the period 1939-1962. The absolute actual dollar and the per capita constant dollar increases have been substantially greater in regard to the school portion of the tax. An overall decline in total taxes and general taxes in terms of units of assessment has been achieved in spite of an actual increase in education levies per unit of assessment. Increases in provincial subsidies for general purposes and particularly for education have served, in part, to hold the property tax to a level which compares very favourably with pre-war experience. Assessment per capita has increased from $855 in 1943 to $1,778 in 1962, an improvement which is not significantly due to inflation but may be attributed largely to an increase in industrial and business assessment relative to residential assessment. This development has also eased the burden of taxes on the residential ratepayer.

Special Considerations

Provincial subsidies

Provincial subsidies provided 14.05% of total municipal revenue in 1962. Additional subsidies are given directly to boards of education. The true effect of provincial subsidies upon the incidence of property tax levies requires consolidation of the municipal and school board revenues. This consolidation produces an estimate that provincial subsidies contributed 31.77% of consolidated revenues in 1962. On the same basis property taxes provided 56.98% of the consolidated revenues.

I.C.A.O. - SPECIAL TAX COMMITTEE

Business levies

Industrial and commercial properties are taxed at a higher rate per unit of assessed value than residential properties, due to the presence of provincial grants designed to benefit residential property only and due also to the assessment of each business in addition to the property occupied. While these combine to introduce an element of inequity, evidence presently available does not establish a clear case for their continuation or adjustment. Extensive further enquiry as recommended previously is required before suitable conclusions can be drawn.

Education costs

Higher education costs appear to be occasioned largely by adherence to standards set by the Province with a view to providing a universal level of education regardless of local circumstances. Provincial subsidies to school boards now amount to some 83% of the amount raised by local taxation and 45% of school revenue. Inasmuch as local taxes retain the virtue of identification between benefit and payment, careful consideration is required before adopting any significant increase in the present pattern of grants assistance.

Other sources of municipal revenue

The property tax appears to meet most of the criteria of a just tax and has proven itself over many years to be both productive and easy to administer. There would be little justification in an attempt to replace it by some other form of local taxation as a major source of revenue. Extension of forms of licensing or service charges would be unlikely to produce significant additional revenue. Sales taxes or income taxes may be suitable municipal imposts but past experience in their use has been disappointing. Poll taxes or school fees might be considered as means for reaching the apartment dwellers who may now be escaping full responsibility in meeting their fair share of education costs and of other municipal services.

I.C.A.O. - SPECIAL TAX COMMITTEE

Assessment

With minor exceptions, the property tax is applied throughout each municipality to bear equally on all ratable property. However, assessed values upon similar property may vary within any one municipality and from one municipality to another. The proportions of industrial and business assessment to residential assessment also differ as between municipalities. A dormitory area may suffer a high per capita tax while industry locates in another jurisdiction which thereby enjoys a low tax rate. These anomalies and inequities might be largely overcome by provincial supervision of an equalized assessment applied on a province-wide basis and by further extension of grants designed to compensate those municipalities with abnormally high residential concentration.

Responsibility of School Trustees

Under present legislation a municipal council has no statutory jurisdiction over school board tax demands. The board states its requirements and the council is obliged to add the amount to the tax levy. Although shown as a separate rate on the tax bill, the ratepayer tends to view the entire amount as one charge and to hold the council responsible for any increase.

Consideration should be given to fixing responsibility for education costs squarely upon the school trustee. This might be accomplished by the issue of separate tax bills for school purposes under the name of the local board of education. Alternatively, legislation might give the municipal council the statutory right to review and amend the school budget.

CONCLUSIONS AND RECOMMENDATIONS

Real property taxes contribute approximately 75% of municipal corporation revenues and 57% of consolidated municipal and school board revenues. This represents a decline in the importance of real property taxes since 1938 but such taxes are likely to remain the main source of locally imposed taxation. The burden of the tax has declined over the past 25 years despite a substantial increase in the quality, cost and range of municipal services.

I.C.A.O. - SPECIAL TAX COMMITTEE

With reference to personal income and market value of property, it would appear that municipal taxes have a substantial margin for further growth before saturation is reached.

The tax meets many of the criteria of a "good" tax. It is levied locally to meet the cost of local services of direct and identifiable benefit to those who pay. It is easy to administer and is derived from a tax base which is immovable and stable over long periods of time. Evasion and avoidance are difficult, collection is high. It is clear and simple, its impact upon each taxpayer is predictable and appeal from inequity is immediate and economical. Assessment values may be redetermined to reflect changes in price levels and the effects of changes in costs of service are quickly reflected in the levy. Finally, the ratepayer is able to exert a direct and immediate influence upon members of council, thereby exercising a high degree of control. The present levels of municipal and educational grants by the Province appear to be suitable and designed to recognize the due responsibilities of Provincial and municipal areas of jurisdiction.

Our observations and recommendations relate to the mechanics of administration of municipal taxes and grants rather than to the taxes or grants per se. We would suggest that the following points require consideration in the improvement of the realty and business tax burden.

1. Assessment principles and values should be administered or more closely directed by the Province. Perhaps, a separate provincial staff could be set up or, at the very least, some form of inspection be provided that assures uniform assessments throughout Ontario. Although uniformity has increased a great deal, there is still too much diversity from municipality to municipality and within the municipality itself.
2. Education levies should be billed separately under the name of the local board of education.
3. Provincial subsidies should continue to emphasize assistance to municipalities with high residential assessment. For where adjacent municipalities have disproportionate shares of industrial and residential

dormitory areas, the actual municipal tax revenue in these municipalities would be equally disproportionate. Continuation of grants which recognize this problem is recommended.

4. As was mentioned in the section on Provincial-Municipal Grants, consideration should be given to the fact that grants or the role of grants should be re-orientated. The basis of provincial grants should recognize a minimum standard of education per capita so that the excess cost feeds back to the municipality which must cover it through municipal taxes. Otherwise, a grant that is minimal in a large city, may be a luxury in a rural district. Although there may be some conflict in the thinking between urban-rural grants, the problem must be viewed from the benefit to be derived by the Province as a whole and not by local or partisan interests. This would tend to put a greater degree of responsibility on the school trustee - we do not mean this as a criticism of the role of the trustee because there is no doubt that a great deal of necessary and beneficial work is carried out by the local school boards. Nevertheless, excess expenditures should be subject to some method of control.
5. Consideration should also be given to the revision of the present county structure and the establishment of regional authorities created to minimize competition between municipalities for industrial and residential development and to provide services and planning of maximum advantage to the region as a whole.
6. It would be preferable if a method were devised to assure that assessment values were prepared on a more current basis than is present in the system now in effect.
7. It has been found that a certain number of complaints with respect to realty taxes have been relieved by spreading the payments of realty taxes over a six-month period. There is no doubt that there would be a major complaint against any tax if the taxpayer had to pay, for example, $1,000 in income taxes in three instalments, or $600 in sales

taxes in three instalments. We would suggest, then, that the trend to monthly instalments be considered as the payment of 12 small amounts is more palatable than fewer larger amounts. We would also note that some municipalities still issue their tax bills in December, which invariably results in higher interest charges to these municipalities.

8. The Province should review the present basis of borrowing undertaken by the different municipalities. It may be that a more efficient and cheaper arrangement could be made to allow municipalities to borrow monies required for capital projects at more reasonable costs, perhaps through regional or provincial funding.

9. At the present time we cannot recommend an extension into newer areas of taxation, such as wealth taxes, value-added taxes, and personal property taxes, until the municipal tax has achieved maximum utilization. We still feel that there is a margin for further growth in this field before saturation is reached. Poll taxes or school fees might be considered as a means for reaching the apartment dwellers who may now be escaping full responsibility in meeting their fair share of education costs and of other municipal services.

I.C.A.O. - SPECIAL TAX COMMITTEE

THE INDIRECT COST OF TAXATION

The imposition of taxation results in costs from the point of view of administration and adherence to the levy, not only to the Government but to business and individuals as well. Administrative costs in Government are also a charge to the tax-paying public, as the monies to cover these administrative costs must come out of tax revenues. As a result, the reduction of complexities in any tax system benefits the Government and the public.

Impositions of tax have a direct bearing on business costs, but very little has been committed to writing on this subject. In July 1961 the Canadian Tax Foundation released a study entitled "The Costs of Tax Compliance" and although it contains much by way of interesting comment and many statistics, by the authors' admission it cannot be regarded as more than a stimulant to further and more comprehensive study. This is so by reason of the restrictive sampling employed and the rather general theme of the initial approach.

Dealing specifically with the topic as it is related to provincial taxation in Ontario, one is very much aware of the existence of the burden, but frustrated in any attempt to measure the cost impact thereof. The administrative costs incurred to comply with the legislation include the costs of collecting, accounting for, reporting on and remitting the various taxes demanded by legislation. As the taxing list of the Province itself expands so does its own administrative costs mount up and these naturally must be borne ultimately by the taxpayer.

Before any consideration can be given to ways and means of minimizing these costs, it is necessary to review the factors contributing to the problem. It seems possible to isolate the factors under the following three faults: duplication, complexity and ambiguity, and antiquity.

Under the heading of duplication we gather in for study those taxes which are also imposed by jurisdictionsother than the Province of Ontario. The major areas of duplication are the corporate income taxes, sales tax and

succession duties. Each of these requires separate reporting to satisfy the provincial demands and are not fully comparable to their counterpart in the federal field.

In many instances the governing legislation and the regulations thereunder have become unreasonably complex in the process of time so as to impose a high administrative burden on business. If we consider the plight of a producing mining company with head office and mine property in Ontario and a sales office in, say, Quebec, then this company faces the payment of four separate taxes based on income, i.e., the federal income tax, the Ontario income tax, the Quebec income tax and the Ontario mining tax. In no two cases is the determination of income subject to tax exactly the same and in most cases there are very important differences. As a tax which demands interpretation of intricate ruling by a large number of taxpayers, the Ontario sales tax imposes difficulty particularly in the area of exceptions and exemptions. Associated with the complexity of tax legislation is the frequent occurrence of ambiguous terminology and phraseology. Examples of this fault are to be found in many areas of major tax legislation.

As for the problem of antiquity an illustration is the Ontario mining tax and logging tax which have received very little amendment since their introduction and still have no regulations issued to guide the taxpayer. As a result, each taxpayer must interpret the law according to present-day conditions and most frequently enter into expensive time-consuming negotiations with departmental officials in order to finalize filings. This procedure seems to suggest the probability of inequities imposed on many primarily because of out-dated guidance.

Other factors which should command study by the legislators in the interest of economical and fair dealing with business are (a) the treatment accorded interest charges on re-assessed tax returns and (b) the Government's administrative policy in the payments of its own accounts to the public. In the matter of interest charges on re-assessments the policy of ruling such charges as non-deductible in the computation of taxable income of the year

in which the interest was paid invokes a penalty of unfair proportion. There is no quarrel with the levy of penalties for non-compliance, avoidance or evasion.

The Government and its various agencies are in many cases very slow in the payment of accounts. Since such accounts are frequently large in amount, this delinquency invokes a heavy burden in financing costs, particularly on relatively small business enterprises, and should be the subject of study for improvement.

Unfortunately, time does not permit a sufficiently accurate study of this subject to produce even illustrative computations of costs in terms of relative dollars, and we doubt if accurate figures could be gathered to reasonably support such an intangible subject, except under some continuous basis of study. Nevertheless, there is no doubt that these costs very definitely do exist and that they are considerable.

RECOMMENDATIONS

As a step towards the easing of this burden on business, it is the hope of this Committee that the Government of Ontario may be induced to study the problem carefully and in this connection might consider the following recommendations:

1. Support to current negotiations with the federal and other provincial authorities aimed at developing uniformity in overlapping or duplicated tax legislation. We would suggest that the Province maintain its present basis of levying personal income taxes as a return to separate income taxes such as that imposed by the Province of Quebec would only result in more tax costs and more complexities.
2. Study of existing tax statutes, returns, etc. with a view to simplification and reduction of exceptions and exemptions.
3. The revision and possibly abolishment of out-dated legislation, particularly where administrative costs are not commensurate with revenues.

I.C.A.O. - SPECIAL TAX COMMITTEE

4. Improvement of the Government's policy of paying its own accounts with the public as well as faster payment by municipalities, school boards and hospitals of their accounts with suppliers and contractors.

5. Allowance to taxpayers of interest charges on re-assessments as a deductible expense in calculating taxable income.

6. The Government should undertake a study of costs of tax compliance so that different methods and routines could possibly be worked out through Government bodies and result in a more efficient or easier system of collection of taxes.

7. Although we do not suggest that taxpayers be remunerated by the Government to cover their costs of collecting the tax, we would point out that the present basis of compensation under the Retail Sales Tax Act should be maintained. This would be particularly true if a uniform sales tax act at this level were levied across Canada. This is due to the peculiar nature of the tax where every transaction carried out as a sale requires obvious work by the retailer. Any scale of remuneration should recognize that the percentage of remuneration for high price items should be lower than low price items as the calculation of tax applies to each item, and the high percentage if applied to high price items would over compensate the retailer for the expense that he goes through.

8. In the area of sales taxes the calculation of the tax due by the vendor should recognize the right to use approved formulas applied to total sales dollars in order to minimize detailed accumulation of exact tax collected. It is understood that the Province apparently recognizes a formula application by the vendor although it is not actually spelled out in the legislation. Of course, the Province should take care to see that the formula does not result in a loss of the tax collected for the Government. Modern methods of test auditing with recognition of the possibility of tax avoidance could be developed to assure that the formulas and the collection of tax was correct.

9. We have observed that with respect to certain taxes, such as a retail sales tax, those states in the U.S.A. that have a suitable and adequate audit

staff save many millions of dollars that would have otherwise been lost to the state through tax carelessness and avoidance. It is important to assure that the Provincial audit staff in this field is well qualified and not overburdened due to a lack of sufficiently well-trained auditors.

10. Whenever a new tax is introduced, or substantial changes in an old tax are made, the Government should, to the best of its ability, see that the taxpaying public is made aware of the changes in sufficient time to adapt to the changes. Taxes or changes that are imposed suddenly without warning only result in confusion and disproportionate increased costs, not only to the public and business but to the Government as well. Ample notice of the change and thorough explanations are a necessity.

I.C.A.O. - SPECIAL TAX COMMITTEE

TABLE 1

THE PROVINCE OF ONTARIO

MAJOR PROVINCIAL REVENUE SOURCES[1]

Corporations tax	$ 165,854,000
Gasoline tax	165,193,000
Government of Canada grants-in-aid and shared cost contributions	154,633,000[2]
Personal Income tax	120,652,000
Hospital Services Commission premiums	89,509,000[3]
Liquor revenues	82,500,000
Retail Sales tax (partial year)	78,747,000[4]
Vehicle and Driver licensing, fees, etc.	70,305,000
Succession duties	40,397,000
Mining tax	15,690,000
Timber dues, bonus, etc.	13,403,000
Motor Vehicle fuel tax	7,603,000
Fees, fines, etc. collected by Inspector of Legal Offices	6,449,000
Race Tracks tax	6,157,000
Water Power rentals	5,697,000
Game and Fish licences, etc.	5,055,000
Hospitals (Amusement) tax	4,380,000
Land Transfer tax	3,710,000
Security Transfer tax	3,535,000
Logging tax	2,094,000
Corporation fees - filing, letters patent, etc.	1,681,000
Tuition fees - technical institutes, colleges, etc.	1,636,000
Surrogate Court fees - law stamps	1,221,000
Provincial Land tax	1,173,000
Escheated Estates	1,101,000
Rental and Board charges to government employees	1,055,000
Various mining fees, leases, royalties, etc.	1,026,000
Department of Labour fees, inspections and examinations	1,026,000
Provincial Park revenue	990,000
Department of Public Works rentals	933,000
Miscellaneous mental hospital revenue	772,000
Highway tolls - Burlington Skyway	708,000
Ontario - St. Lawrence Development Commission revenue	664,000
Public Utility Corporations - share of Federal income tax	651,000
Fire Marshal's Act taxes	586,000
Insurance Act - licence fees and taxes	554,000
TOTAL	$1,057,340,000

Notes

(1) Unless otherwise indicated, figures are taken from the Public Accounts of the Province of Ontario for the fiscal year ending March 31, 1962, and rounded to the nearest thousands of dollars.

(2) Financial Statistics of the Government of Canada fiscal year ended March 31, 1961 (Dominion Bureau of Statistics).

(3) Ontario Hospital Services Commission Annual Report for the Calendar year 1961.

(4) 7 months only from coming into effect on September 1, 1961.

Source: The Ontario Committee on Taxation, 1963.

TABLE 2

PROVINCE OF ONTARIO

STATEMENT SHOWING CAPITAL AND OPERATING ACCOUNTS FOR HIGHWAY CONSTRUCTION AND MAINTENANCE

	For period commencing November 1, 1918 and ending March 31, 1955	For period commencing November 1, 1918 and ending March 31, 1962 (Thousands of Dollars)	Net Change April 1955 to March 31, 1962
CAPITAL ACCOUNT			
Excess of capital and ordinary expenditure on public roads by Ontario over highway revenue, 1889 to October 31, 1918 (no interest included)	$ 13,061	$ 13,061	$
Capital expenditure (1)	751,007	1,797,415	1,046,408
	764,068	1,810,476	1,046,408
Deduct: Charge for amortization of capital expenditure on a 30-year basis	329,553	577,440	247,887
Unamortized capital expenditure at end of period	$ 434,515	$1,233,036	$ 798,521
NET DEBT			
Unamortized capital expenditure	434,515	1,233,036	798,521
Net surplus (deficit) on operating account for period	(26,498)	407,625	434,123
Net debt at end of period	461,013	825,411	364,398

OPERATING ACCOUNT							
Gross revenue from gasoline and motor vehicle fuel taxes and motor vehicle license fees		1,272,883		2,682,162		1,409,279	
Deduct:							
Amortization of capital expenditure	329,553		577,440		247,887		
Interest on unamortized capital expenditure (2)	288,532		528,065		239,533		
Ordinary maintenance expenditure (3)	645,595		1,192,728		547,133		
Interest at 4-1/2% charged on deficit or credited on surplus at end of each year, resulting from net deficiency or excess of gross revenue in meeting all charges	35,701		(23,696)		(59,397)		
		1,299,381		2,274,537		975,156	
		(26,498)		407,625		434,123	

NOTES:

1. Capital expenditure includes all construction costs of Ontario provincial highways as well as provincial subsidies to municipalities for capital construction of municipal roads.
2. Interest is charged annually at 4-1/2% on the balance of capital expenditure unamortized at the close of the previous fiscal year.
3. Ordinary maintenance expenditure includes all Department of Highways and Department of Transport current expenditures including subsidies to municipalities for the maintenance of municipal roads; also included is 60% of the provincial costs of maintaining the Ontario provincial police.

SOURCE: Province of Ontario, Public Accounts.

TABLE 3

FEDERAL CONTRIBUTIONS TO ONTARIO UNDER CONDITIONAL GRANTS PROGRAMMES 1961-1962

(Thousands of Dollars)

1.	AGRICULTURE		
	(a) Agricultural Lime Assistance	$ 37	$
	(b) 4-H Club	44	
	(c) Other (5 projects)	37	118
2.	HEALTH		
	(a) Hospital Construction	7,620	
	(b) General Public Health	2,677	
	(c) Tuberculosis Control	729	
	(d) Mental Health	2,603	
	(e) Professional Training	402	
	(f) Cancer Control	1,170	
	(g) Public Health Research	595	
	(h) Mental Rehabilitation & Crippled Children	252	
	(i) Child and Maternal Health	394	
	(j) Vital Statistics	25	16,467
3.	HOSPITAL INSURANCE		104,499
4.	WELFARE		
	(a) Old Age Assistance	6,903	
	(b) Blind Persons Allowances	837	
	(c) Disabled Persons Allowances	4,503	
	(d) Unemployment Assistance	16,990	
	(e) Rehabilitation of Disabled Persons	40	
	(f) Welfare Assistance to Immigrants	51	29,324
5.	VOCATIONAL TRAINING		
	(a) Student Aid	100	
	(b) Apprenticeship Training	565	
	(c) Vocational High School Training	824	
	(d) Technician Training	258	
	(e) Trade and Occupational Training	292	
	(f) Training of Unemployed	936	
	(g) Training of Disabled Persons	193	
	(h) Training of Technical Teachers	130	
	(i) Capital Assistance Technical Schools	8,625	
	(j) Other	200	12,123
6	HIGHWAYS AND TRANSPORTATION		
	(a) Trans-Canada Highway	13,004	
	(b) Railway Grade Crossing Fund	1,537	
	(c) Other	176	14,717
7.	RESOURCE DEVELOPMENT		
	(a) Fur Conservation	73	
	(b) Forest Inventories	189	
	(c) Reforestation	179	
	(d) Forest Fire Protection	290	
	(e) Forest Access Roads	221	
	(f) Metro Toronto Conservation	121	
	(g) Camp Ground and Picnic Areas	643	
	(h) Roads to Resources	1,649	
	(i) Other	35	3,400
8.	CIVIL DEFENCE		1,011
9.	MUNICIPAL WINTER WORKS		5,371
			$187,030

SOURCE: Provincial Treasury Statistics

TABLE 4

FEDERAL CONTRIBUTIONS TO ONTARIO UNDER CONDITIONAL GRANT PROGRAMMES ANALYZED

(Thousands of Dollars)

	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62
	$	$	$	$	$	$
1. Agriculture	63	91	91	201	107	118
2. Health	10,606	9,955	11,782	15,097	15,783	16,467
3. Hospital Insurance	-	-	13,140	71,893	84,484	104,499
4. Welfare	7,134	11,173	20,586	25,444	24,647	29,324
5. Vocational Training	1,234	703	3,264	3,260	3,476	12,123
6. Highways and Transportation	5,184	12,927	16,579	19,673	19,747	14,717
7. Resources Development	850	1,237	2,925	2,241	3,117	3,400
8. Civil Defence	348	451	449	586	798	1,011
9. Municipal Winter Works	-	-	-	1,996	2,447	5,371
10. Other	27	27	27	27	27	-
	$25,446	$36,564	$68,843	$140,418	$154,633	$187,030

SOURCE: Provincial Treasury Statistics

TABLE 5

GOVERNMENT OF CANADA
LIST OF MAJOR CONDITIONAL GRANT AND SHARED COST PROGRAMMES AFFECTING ONTARIO
1961-1962

	Year Established	Basis of Contribution	Provincial Share %	Federal Contribution $000
AGRICULTURE				
1. 4-H Club Activities	1900	Provincial Expenditure	50	44
2. Agricultural Lime	1943	"	40	37
CITIZENSHIP & IMMIGRATION				
1. Hospitalization and Welfare of Immigrants	1947	Estimated Cost	50	51
2. Instruction to Immigration	1954	Provincial Expenditure	50	193
3. Fur Conservation	1937	"	40-50	73
4. Roads to Indian Reserves	ad hoc	Estimated Cost	50-80	165
CIVIL DEFENCE	1952	Population	25-50	1,011
FORESTRY				
1. Forest Industry	1951	Provincial Expenditure	50	189
2. Reforestation	1951	"	50	179
3. Forest Fire Protection	1957	"	50-75	290
LABOUR				
1. Rehabilitation of Disabled Persons	1953	"	50	40
2. Vocation H.S. Training	1950	Population	50	824
3. Technician Training	1960	Provincial Expenditure	50	258
4. Trade & Occup. Training	1960	"	50	292
5. Training of Unemployed	1948	"	25-50	936
6. Training of Disabled	1950	"	50	193
7. Training of Technical Teachers	1960	"	50	130
8. Capital Assistance	1945	"	25 to March/63 50 thereafter	8,625
9. Apprenticeship Training	1944	"	50	565
10. Municipal Winter Works	1958	Approved Municipal Expenditure	Not Uniform	5,371
NATIONAL HEALTH AND WELFARE				
1. Hospital Construction	1948	Estimated Construction	50	7,620
2. Professional Training	1948	Flat grant and Population	Province provides admin., services, land, etc.	
3. Mental Health	1948	"	"	2,603
4. Tuberculosis Control	1948	"	"	729
5. Public Health Research	1948	Research Needs	"	595
6. Cancer Control	1948	Flat Grant and Population	50	1,170
7. General Public Health	1948	"	Province to maintain existing level of expenditure	

TABLE 5 - Cont'd.

GOVERNMENT OF CANADA
LIST OF MAJOR CONDITIONAL GRANT
AND SHARED COST PROGRAMMES AFFECTING ONTARIO
1961-1962

	Year Established	Basis of Contribution	Provincial Share %	Federal Contribution $000
NATIONAL HEALTH AND WELFARE (Cont'd.)				
8. Child and Maternal Health	1953	Flat Grant Provincial infant birth and death ratio	Province provides admin. services, land, etc.	394
9. Medical Rehabilitation of Crippled Children	1953	"	"	252
10. Hospital Insurance	1958	Population eligible for hospitalization X (25% of average) (national per capita cost) (25% of average) (provincial per capita cost)	Difference between $4.20 per family and total cost minus Federal Contribution	104,499
11. Old Age Assistance	1952	Needy Persons 65-69 age	50	6,903
12. Blind Persons Allowances	1937	Needy Persons 18-69 age	25	837
13. Disabled Persons Allowances	1954	Needy Disabled persons 18-69	50	4,503
14. Unemployment Assistance	1955	Needy unemployed	50	16,990
NORTHERN AFFAIRS AND NATIONAL RESOURCES				
1. Roads to Resources	1958	Flat grant	50	1,649
PUBLIC WORKS				
1. Trans-Canada Highway	1950	Provincial Mileage and extent of programme	10-50	13,004
2. Urban Redevelopment	1944	Cost	50 including municipal share	771
3. Urban Renewal	1956	Cost	25-50 including municipal share	24
TRANSPORT				
1. Railway Grade Crossing Fund	1909	Approved Construction	12-1/2-15 including municipal share	1,537

SOURCE: Provincial Treasury Statistics

T A B L E 6

HOSPITAL CARE

STATEMENT OF INCOME AND EXPENDITURE

	1959	1960	1961	1962
			(000 omitted)	
	$	$	$	$
INCOME				
Premiums from insured	71,398	86,728	89,509	91,926
Contributions from				
Canada	72,843	86,345	101,142	114,183
Ontario	18,600	25,415	33,664	47,910
	162,841	198,488	224,315	254,019
Miscellaneous income	443	645	208	226
	163,284	199,133	224,523	254,245
EXPENDITURE				
Hospital costs	157,664	188,533	214,813	244,443
Allocated Premiums for Provincial Mental Institutions	3,400	4,130	4,262	4,377
Operating expenses	4,025	4,665	5,240	5,199
	165,089	197,328	224,315	254,019
EXCESS OF INCOME OVER EXPENDITURE	$(1,805)	$ 1,805	$ 208	$ 226

SOURCE: Ontario Hospital Services Commission

I.C.A.O. - SPECIAL TAX COMMITTEE

APPENDIX I

The Taxation Committee of The Institute of Chartered Accountants of Ontario submits the following recommendations for consideration by the Provincial Treasurer.

Federal-Provincial Tax-Sharing Arrangements

We are gratified to note that the Ontario Government has entered into an agreement with the Federal Government whereby the latter will collect the income taxes levied by the Province on individuals. It is considered that this principle should be extended to corporation taxes, with considerable saving in administrative and other costs to the Ontario Government and the taxpayers. The fact that the Province at present levies a tax on capital and places of business should not prove a bar to this procedure because it is understood that these taxes in their present form produce little revenue and generally apply only to loss companies, new ventures, etc., which are least able to pay and for this reason should be dropped. It is recommended, therefore, that Ontario enter into an agreement with the Federal Government whereby the latter will collect the corporation income taxes on its behalf.

The Corporations Tax Act

General

Whether or not Ontario enters into an arrangement whereby the Federal Government collects Ontario corporation taxes, the Ontario Act should be amended to conform with the Federal Income Tax Act. With this thought in mind, a number of suggestions are set out below. In accordance with the procedure in previous years, the recommendations which follow are confined to those which may be adopted without departing from the basis of taxation prescribed in the Federal Income Tax Act. A number of other recommendations are being made to the Federal Minister of Finance, relating to suggested changes in federal income taxes which would also be desirable for Ontario tax purposes; these recommendations are not included here because it is considered that such changes should first be made in the federal Act.

I.C.A.O. - SPECIAL TAX COMMITTEE APPENDIX I

1. Definition of a permanent establishment - S.2(10)

This provision, introduced in 1960, states that a corporation has a permanent establishment in the place designated in its charter as being its head office and a 1961 amendment provides that it also has a permanent establishment in the principal place where the corporation carries on business. The Federal Regulations do not contain a similar provision and this difference may give rise to important differences in the allocation of taxable income for federal and provincial purposes and, consequently, to double taxation through failure of some companies to obtain relief under Section 40 of the federal statute for Ontario tax arising under this provision. Moreover, the provision introduces an arbitrary basis for allocation which has no relation to the earning of income. In addition, under this provision companies incorporated under federal statute might alter their tax liability simply by changing the location of their head offices and the provision may discourage the formation of new companies in Ontario.

It is recommended, therefore, that this provision be repealed.

2. Special Allocation Formula - S.4(34)

This provision relates to corporations incorporated under a jurisdiction outside Canada, whereas Section 31 of the federal Income Tax Act relates to persons not resident in Canada. This difference in the basis for apportionment of taxable income may give rise to differences between the amount of income subject to tax in Ontario and the amount of income subject to federal tax.

To avoid this difficulty, it is recommended that the qualification in Section 4(34) should be based on residence rather than the place of incorporation except in cases where international tax agreements take precedence over the federal Act and require the apportionment to be based on the place of incorporation.

3. Foreign tax credits - S.4(35)

In the case of an Ontario company carrying on business through a permanent establishment in a foreign country and deriving investment income from

sources in that country, the tax would be computed as indicated in the following illustration:

	Ontario branch	Foreign branch	Foreign investment	TOTAL
Taxable income	$ 60,000	$ 30,000	$ 10,000	$100,000
Foreign tax	-	13,500	4,500	18,000
Average of percentages of gross revenue and salaries and wages attributable to permanent establishments	66-2/3%	33-1/3%	-	100%
Ontario tax - 11% of taxable income	$ 6,600	$ 3,300	$ 1,100	$ 11,000
Less - abatement under Section 4(2)	-	3,300	367	3,667
Net amount of tax	$ 6,600	-	$ 733	$ 7,333

It will be seen from the above example that Ontario tax of $733 would be imposed on the foreign investment income. This income has also been subject to foreign tax of $4,500 and federal income tax. Since the company has a permanent establishment in the foreign country, no credit would be allowed for the foreign tax under Section 4(35) of the Ontario Act, as presently worded, even though the federal credit allowed for foreign taxes has been reduced by reason of the provincial tax abatement.

It is recommended, therefore, that Ontario grant relief for foreign taxes paid to the extent that the credit allowed for federal purposes has been reduced by reason of the abatement allowed for federal purposes in respect of Ontario tax, limited, however, to 11% of the portion of the foreign investment income subject to tax in Ontario. This result would be achieved by

(1) deleting the words "in which the corporation has no permanent establishment" from subsection (35),

(2) limiting the application of this Section to dividends, interest, rents and royalties from sources within the foreign jurisdiction to the extent that they were excluded from gross revenue under Section 4(9), and

(3) changing the rate mentioned in Section 4(35)(a) from 9% to 11%.

4. Capital and place of business taxes - S.5 and S.6

The taxes on capital and places of business of a corporation are only payable to the extent that they exceed the amount of Ontario corporation income tax. Thus they are levied on corporations sustaining losses or making small profits. In many cases new enterprises must expect to suffer losses in the first year or two of operation; sometimes very substantial losses are incurred. It is questionable whether it is desirable to levy the taxes on capital and places of business in such circumstances. It is also doubtful whether these minimum taxes will, in fact, produce revenue proportionate to the work placed upon taxpayers and the Office of the Comptroller of Revenue in producing and processing the information required in this connection.

It is recommended that these taxes be repealed.

5. Reduction in tax - S.6(6)

This subsection provides for reduced tax in certain circumstances in lieu of the tax imposed under subsection (1).

It is recommended that the reduced tax should also apply in lieu of tax imposed under subsection (2).

6. Loss carry-over deduction - S.39(4)

This provision requires that a corporation which carries forward or carries back losses in determining income for a fiscal year under the federal Income Tax Act carry forward or carry back exactly the same amount and to the same extent under this Act. There are some situations in which income or loss for purposes of the federal statute may not be identical with income or loss under The Corporations Tax Act. For example, under the federal statute dividends paid out of designated surplus are included in the taxable income of the receiving corporation, which is not the case under the provincial statute. Subsection (4), by requiring the loss carry-over for Ontario purposes to be exactly the same amount as for federal purposes, in effect, results indirectly in imposing Ontario tax on a dividend paid out of designated surplus which was received in the year in which a loss was incurred.

It is recommended that subsection (4) of Section 39 be repealed.

7. Personal corporations - S.42

The definition of personal corporation restricts such a corporation to one controlled by an individual resident in Ontario or by such an individual and members of his family who are resident in Ontario. There seems to be no reason why companies which qualify as personal corporations under the federal Income Tax Act should not also qualify under the Ontario Act. Under the present rules Ontario, in effect, taxes the personal incomes of shareholders of personal corporations in cases where control does not rest with Ontario residents.

It is recommended that the Section be amended to substitute the words "resident in Canada" for "resident in Ontario" in the definition of personal corporation.

8. Instalment payments - S.74

Under Section 74 of the Act a taxpayer is required to pay the estimated tax in four equal instalments on or before the fifteenth day of the fifth, eighth and eleventh months of the fiscal year in respect of which the tax is payable and on or before the fifteenth day of the second month of the following fiscal year. It would be of great assistance to the taxpayer if these dates could be adjusted to conform more closely to the corresponding dates for the federal instalments.

It is recommended that the due dates of instalment payments should be changed to the last day of the sixth, ninth and twelfth months of the fiscal year in respect of which the tax is payable and the last day of the third month of the following fiscal year.

9. Penalty interest - S.75(6)

Section 75(6) provides for penalty interest at the rate of one-quarter of 1% per month or part thereof on any tax which is due and unpaid more than two months after the date payable, in addition to interest at 6% per annum provided for under Section 75(2) of the Act on any deficiency in tax. Accordingly, interest on unpaid amounts runs at 6% per annum for the first two months and at 9% per annum thereafter and, since this interest is not

deductible for tax purposes, the burden of the interest on the taxpayer is equivalent to deductible interest of approximately twice this amount.

In most cases deficiencies in amounts paid on account of taxes arise from difficulties in accurately estimating income under changing business conditions and in applying the complex rules incorporated in the income tax law. Even when instalment payments are based on the taxpayer's estimated taxable income for the previous year, there is no assurance that the taxable income of that year may not be increased by a subsequent assessment. Where the taxpayer has made an honest effort to determine his liabilities and has made appropriate instalment payments, it is unreasonable to charge penalty interest. Furthermore, the calculation of the penalty interest requires a great deal of time and effort, which must reduce the yield therefrom to a minor amount.

It is, therefore, recommended that the penalty interest should be removed.

10. Reassessment - S.76(4)

This provision permits the Treasurer to reassess or make additional assessments at any time. On the other hand, Section 78 apparently limits the period within which a refund may be obtained by a taxpayer to four years from the day on which an overpayment was made or the day on which the notice of assessment was mailed. It must be recognized that taxing procedures change from time to time, reflecting changes in court decisions and administrative practice, etc., and sometimes honest error in principle or figures may result in an overpayment or underpayment of taxes. It is unreasonable that the taxpayer should be held liable indefinitely for possible taxes and that the tax position should never reach finality.

If Ontario intends to rely mainly upon federal assessments in determining the amount of income subject to tax and such federal assessments are not closed for four years from the date of the original assessment, it is recommended that the Ontario Act be amended to provide for reassessment up to five years from the date of the original assessment except in case of misrepresentation or fraud.

11. Real estate and other companies having substantial mortgage or other indebtedness

Real estate and other companies having substantial mortgage or other long-term indebtedness are discriminated against under the present provisions relating to capital tax.

It is recommended that, if the capital tax is retained, a deduction similar to that allowed under Section 10(4)(e) of The Corporations Tax Act (Chapter 72, R.S.O. 1950) should be allowed.

12. Capital and place of business taxes for short periods

The Act at present contains no provision for apportioning the capital and place of business taxes where the fiscal period is less than twelve months. In the case of companies having a short fiscal period, such as new companies starting business and companies winding up, or changing their fiscal year-end, this can create a hardship.

If the capital and place of business taxes are retained, it is recommended that the Act be amended to permit an apportionment of these taxes where the fiscal period is less than twelve months.

13. Interest on retroactive taxes - S.20, Chapter 14, Statutes 1960

This provision grants some relief from interest and penalty interest payable by reason of the enactment with retroactive effect of Section 4(36). However, a number of other important changes have also been made with retroactive effect, such as the changes in the rules of allocation of income, the changes in the basis for imposing capital tax on branches of foreign corporations and the provision that designates the statutory head office of a company a permanent establishment. Whatever might be said about retroactive legislation generally, it is suggested that in any case where additional tax is imposed retroactively the taxpayer ought to be relieved of any liability for interest and penalty up to the date of the enactment.

It is recommended that Section 20 be amended accordingly to grant such relief.

14. Credit for Ontario logging tax - S.4(36a)

Federal Budget Resolution 5, announced on April 10, 1962, stated: "That with respect to taxation years commencing in 1962 a taxpayer be allowed a deduction from tax of an amount equal to the lesser of two-thirds of the amount payable for the year to a Province as a tax on income from logging operations, or 2/3 of 10% of the taxpayer's income from logging operations in the Province, and the right to deduct in computing income amounts paid to a Province as tax on income from logging operations be repealed". If this resolution is enacted, and if our recommendation for repeal of the Ontario Logging Tax Act is not adopted, it is recommended that Ontario allow a credit of one-third of the logging tax as a deduction from taxes payable under the Ontario Corporations Tax Act.

15. Appeals - S.80(1)

At present, there is no provision in the Ontario Act which will permit the taxpayer to proceed with an appeal after a reasonable period has elapsed and the Treasurer has failed to confirm the assessment or re-assess. In some circumstances this could result in a serious hardship on the taxpayer.

It is recommended that the corporation should be given the right to appeal after either -

(a) the Treasurer has confirmed the assessment or re-assessed, or

(b) 180 days have elapsed after service of the notice of objection and the Treasurer has not notified the corporation that he has vacated or confirmed the assessment or re-assessed.

I.C.A.O. - SPECIAL TAX COMMITTEE

APPENDIX II - MUNICIPAL TAXATION

Notes to Statistical Appendices

Tables 1 and 2 have been taken, with minor amendments thereto, from the 1962 Annual Report of Municipal Statistics published by the Department of Municipal Affairs. Tables 3, 4 and 5 have been developed from statistics given in the same source.

Graphs I and II are taken from memorandum No. 2 of the series on Local Finance published by the Canadian Tax Foundation.

While the information presented is self-explanatory, the following comments may assist in pointing up the essential inferences derivable therefrom.

Table 1

Consolidated revenue and expenditure statements are not available prior to 1947. Information from private sources has been used to form a view of the years 1938 to 1947.

Revenue from taxation (including Government of Canada payments in lieu of taxes) has declined from 74.83% of total revenue in 1947 to 72.65% in 1962. In 1938 the percentage would have been slightly higher than in 1947. Taxation of real property still constitutes the major source of municipal revenue although there has been a steady but slight decline over the 25 years.

Provincial subsidies have almost wholly absorbed the decline in taxation and, in fact, have made the decline possible.

All other sources of revenue amounted to 14.14% in 1947 and 13.30% in 1962.

The several sources of municipal revenue have been stable and have maintained approximately the same proportions over the past twenty-five years.

Table 2

Comparison of the years 1938 and 1962 extracted from the table with the addition of percentages representing growth indicate the changes which have occurred.

Table 2 (cont'd)

	1938			1962			Increase 1962/1938	
	Amount	P.C.	%	Amount	P.C.	%	Amount	%
General taxes	$75,803	22.33	65.9	$378,686	62.63	54.9	$302,883	499.
Education taxes	39,200	11.55	34.1	311,174	51.45	45.1	271,974	793.
Total taxes	$115,003	33.88	100.00	$689,860	114.08	100.00	$574,857	599.

Total taxes have increased 600% but education levies have increased nearly 800% while general levies have advanced 500%.

Education levies were 34.1% of total taxes in 1939 and now represent 45.1%.

Per capita taxes have increased $80.20 the increment being shared $40.30 in general taxes; $39.90 in education taxes.

While absolute additions to municipal taxes 1938 - 1962 have been shared roughly equally between general and education requirements, education levies now constitute a substantially greater share of the tax dollar than they did in 1938.

Table 3

Elimination of price changes permits comparison of real advances in municipal taxation. Total per capita levies (in constant 1949 dollars) have increased $35.40 since 1938 or 68.2%, the increment being accounted for by a general levy per capita increase of $14.09 or 41.65% and an education levy per capita increas of $21.31 or 118.0%.

Total impact of taxes per $1,000 of assessment has declined in constant dollars. No statistics are readily available in respect to the exact relationship of 1938 and 1962 assessment bases but to quote the Department of Municipal Affairs: "It should be noted that most assessments in Ontario (i.e. 1962) are related to values in 1940 and that the taxable assessment would be doubled if calculated at current values".

In 1938 the assessment base was very nearly equal to fair market value and price levels did not change significantly from 1938 to 1940.

Pursuant to the above, it may be inferred that the decline in taxes per $1,000 in assessment has been a real decline of $11.09 on each $1,000 of assessment and a very substantially greater decline in terms of fair market value (the general level of prices having doubled since 1939).

Table 4

Total levies have increased 5.17 times since 1947 consisting of an increase of 6.97 times for education and 4.26 times for general levies respectively. Secondary school levies account for the greatest increase in the education area.

Table 5

Table 5 illustrates the significance of provincial subsidies in municipal and school board current financing.

In 1943 such subsidies amounted to 18.78% of total levies but in 1962 amount to 57.29% of levies.

In recent years subsidies in aid of general taxation have increased relative to such aid for educational purposes but the educational subsidy is still vastly in excess of general subsidy both absolutely and percent-wise.

Graph I

This graph illustrates the same trend indicated in Table 3 up to 1959. In terms of 1949 constant dollars total per capita levies were $51.00 in 1939 and $62.00 in 1959, an increase of 21.6%.

However, Table 3 brings out that there has been a further sharp advance from 1959 to 1962.

Graph II

Tables 1 to 5 illustrate the trends and pattern in municipal financing but provide no bases from which to derive a measure of impact.

Graph II compares municipal tax levies to personal income. In 1938 per capita tax levy represented about 7% of per capita personal income and in 1959 about 4-1/2% of personal income. It may be concluded that the ability to pay municipal taxes was substantially greater in 1959 than in 1938.

No statistics have been developed to indicate the further trend through 1962. Per capita levies have increased a further $22.00 since 1959, but it seems unlikely that such an increase represents a significant increase as a percentage of personal income, personal income also having risen since 1959.

TABLE I

DEPARTMENT OF MUNICIPAL AFFAIRS
ALL MUNICIPALITIES IN THE PROVINCE OF ONTARIO

GENERAL FUND

CONSOLIDATED REVENUE AND EXPENDITURE STATEMENT
for the year ended December 31

	1962		1947
	Amount	%	%
REVENUE			
Taxation	$ 690,006,526	70.75	74.37
Government of Canada - in lieu of municipal taxes	18,510,469	1.90	.46
Province of Ontario - subsidies	137,045,401	14.05	11.03
Licenses and permits	7,541,510	.77	.97
Interest charged or earned, plus penalties on taxes	8,281,523	.85	.44
Earnings from municipal utilities and enterprises which were turned over to municipalities	2,078,929	.21	1.99
Receipts from one municipality to another for services rendered	9,286,550	.95	.85
Sundry revenue	40,357,166	4.14	5.19
Debenture debt charges recovered from revenue producing utilities, enterprises & other municipalities	48,544,696	4.98	3.00
Prior years' surplus used to reduce the current levy	13,628,988	1.40	1.70
	$975,281,758	100.00	100.00

TABLE 2

MUNICIPAL TAXATION

GENERAL				EDUCATION			TOTAL		
Amount	Local Improvement Charges	Total	Per Capita	Amount	Per Capita	% of Total Taxation	Amount	Per Capita	Year
$	$	$	$	$	$		$	$	
		88,118	27.20	38,717	11.95	30.5	126,835	39.15	1932
		84,426	25.92	36,005	11.05	29.9	120,431	36.97	1933
70,314	10,596	80,910	24.70	35,033	10.70	30.2	115,943	35.40	1934
68,612	8,365	76,977	23.17	34,557	10.40	31.0	111,534	33.58	1935
71,826	7,520	79,346	23.68	36,252	10.82	31.4	115,598	34.51	1936
69,190	7,065	76,255	22.58	37,944	11.23	33.2	114,199	33.81	1937
69,376	6,427	75,803	22.33	39,200	11.55	34.1	115,003	33.88	1938
67,602	6,015	73,617	21.38	39,297	11.41	34.8	112,914	32.79	1939
67,681	5,466	73,147	21.02	40,287	11.59	35.5	113,434	32.60	1940
65,404	4,829	70,233	20.01	40,852	11.64	36.8	111,085	31.65	1941
63,473	4,367	67,840	19.14	41,420	11.68	37.9	109,260	30.82	1942
63,541	3,997	67,538	18.86	43,023	12.02	38.9	110,561	30.88	1943
63,015	3,891	66,906	18.69	43,502	12.15	39.4	110,408	30.84	1944
68,913	3,637	72,550	20.09	34,485	9.55	32.2	107,035	29.63	1945
74,998	3,732	78,730	21.31	37,125	10.05	32.0	115,855	31.36	1946
85,497	3,338	88,835	23.05	44,608	11.57	33.4	133,443	34.62	1947
94,698	3,446	98,144	24.90	51,180	12.98	34.3	149,324	37.88	1948
105,681	4,287	109,968	26.93	59,864	14.66	35.2	169,832	41.60	1949
116,224	4,885	121,109	28.82	67,244	16.00	35.7	188,353	44.82	1950
135,383	5,337	140,720	32.54	85,313	19.73	37.7	226,033	52.26	1951
153,518	6,250	159,768	35.58	100,079	22.29	38.5	259,847	57.87	1952
160,704	6,999	167,703	36.08	112,217	24.14	40.1	279,920	60.22	1953
175,955	8,237	184,192	38.04	121,836	25.16	39.8	306,028	63.20	1954
186,533	9,790	196.323	39.16	139,841	27.90	41.6	336,164	67.06	1955
207,381	10,934	218,315	42.55	163,947	31.95	42.9	382,262	74.50	1956
233,008	12,327	245,335	46.11	185,882	34.95	43.1	431,217	81.05	1957
254,422	13,318	267,740	48.65	197,781	35.93	42.5	465,521	84.58	1958
278,645	14,602	293,247	51.61	232,074	40.84	44.2	525,321	92.45	1959
310,345	16,031	326,376	56.19	260,346	44.82	44.4	586,722	101.00	1960
335,577	17,377	352,954	59.54	287,838	48.56	44.9	640,792	108.09	1961
360,758	17,928	378,686	62.62	311,174	51.45	45.1	689,860	114.08	1962

TABLE 3

MUNICIPAL TAXATION

Year	Population	Taxation in Actual Dollars *						Price Index	Taxation in Constant Dollars *						Per $1,000 of assessment
		General		Education		T O T A L			General		Education		T O T A L		
		Levy	P.C.	Levy	P.C.	Levy	P.C.		Levy	P.C.	Levy	P.C.	Levy	P.C.	
		$	$	$	$	$	$		$	$	$	$	$	$	$
1939	3,443,135	73,617	21.38	39,297	11.41	112,914	32.79	63.2	116.487	33.83	62,174	18.06	178,661	51.89	60.19
1949	4,082,829	109,968	26.93	59,864	14.67	169,832	41.60	100.0	109,968	26.93	59,864	14.67	169,832	41.60	42.67
1962	6,046,923	378,686	62.62	311,174	51.45	689,860	114.08	130.7	289,773	47.92	238,046	39.37	527,819	87.29	49.10

* thousands of dollars.

Data condensed from 1962 Municipal Statistics.

P.C. - per capita taxes

TABLE 4

MUNICIPAL TAXATION

(Thousands of Dollars)

	Education Levies								General Levies		TOTAL Levies	
	Public		Separate		Secondary		Total Education					
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	$		$		$		$		$		$	
1947 *	30,410	100	3,279	100	10,694	100	44,608	100	88,835	100	133,443	100
1951	54,517	179	6,195	189	24,695	231	85,313	191	140,720	158	226,033	169
1955	88,571	291	10,963	334	41,852	391	139,841	313	196,323	221	336,164	252
1960	155,858	512	20,891	637	85,986	804	260,346	584	326,376	367	586,722	440
1961	166,432	547	23,032	702	101,095	945	287,838	645	352,954	397	640,792	480
1962	170,880	562	24,335	742	117,996	1,103	311,174	697	378,686	426	689,860	517

* Prior to 1950 township grants towards teachers' salaries were not included with the public school levy.

To prepare this schedule on a comparable basis, an estimate of such grants was made for the year 1947 and included in the above figures.

TABLE 5

MUNICIPAL TAXATION

	Municipal taxes				Provincial Subsidies				% of Municipal Taxation		
	General	Education	Total Amount	%	Total Amount	%	General	Education	General	Education	Total
	$	$	$		$		$	$			
1943	67,538,000	43,023,000	110,561,000	100.00	20,765,000	100.00	+	+	+	+	18.78
1947	88,835,000	44,608,000	133,443,000	120.70	62,391,000	300.46	19,773,000	42,618,000	22.26	95.54	46.75
1951	144,720,000	85,313,000	226,033,000	204.44	115,463,000	556.05	34,078,000	81,385,000	24.21	95.40	51.08
1955	196,323,000	139,841,000	336,164,000	304.05	184,534,000	888.68	63,273,000	121,261,400	32.23	86.71	54.89
1960	326,376,000	260,346,000	586,722,000	530.67	334,258,000	1,609.72	121,479,000	212,779,000	37.22	81.73	56.97
1961	352,954,000	287,838,000	640,792,000	579.58	362,920,000	1,747.74	127,557,000	235,363,000	36.14	81.77	56.63
1962	378,686,000	311,174,000	689,860,000	623.96	* 395,209,000	1,903.24	137,045,000	258,164,000	36.18	82.97	57.29

* Estimated

\+ Not Available.

I.C.A.O. -SPECIAL TAX COMMITTEE -APPENDIX II

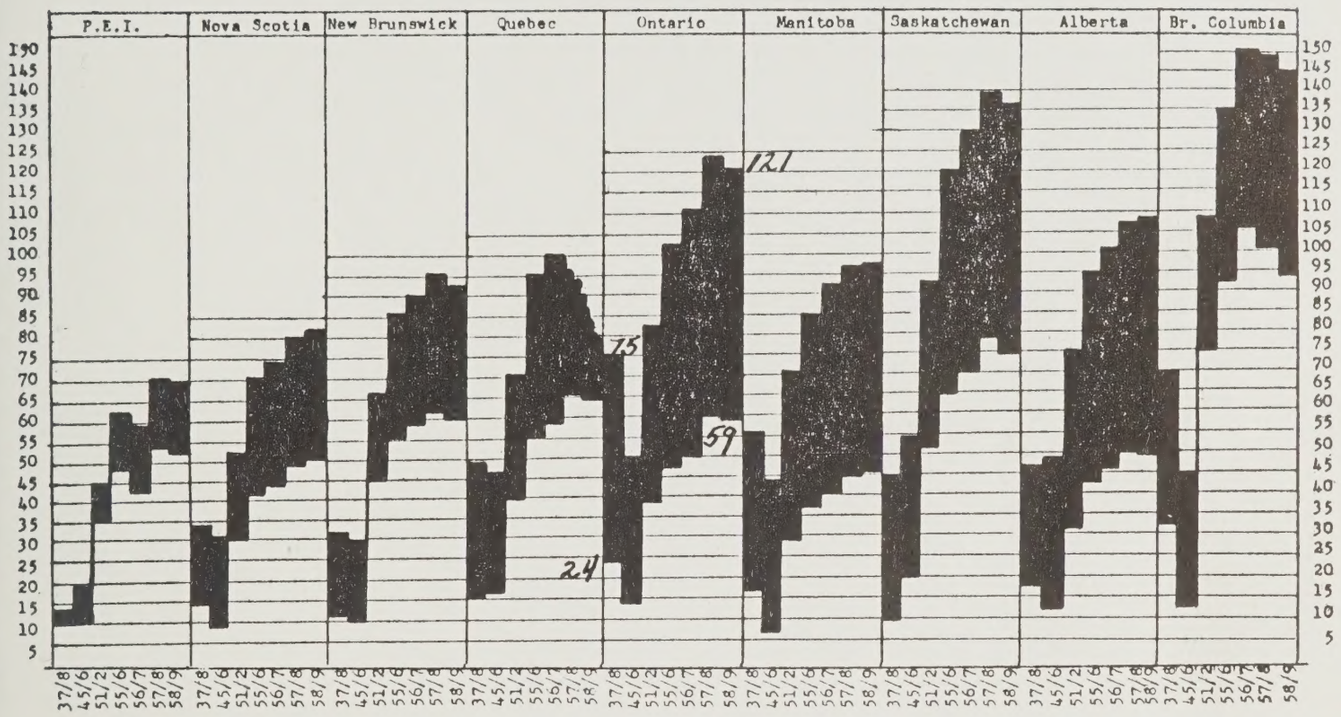
MUNICIPAL TAXATION

GRAPH I

Table 2
Per Capita Provincial & Municipal Taxation
in 1949 Constant Dollars

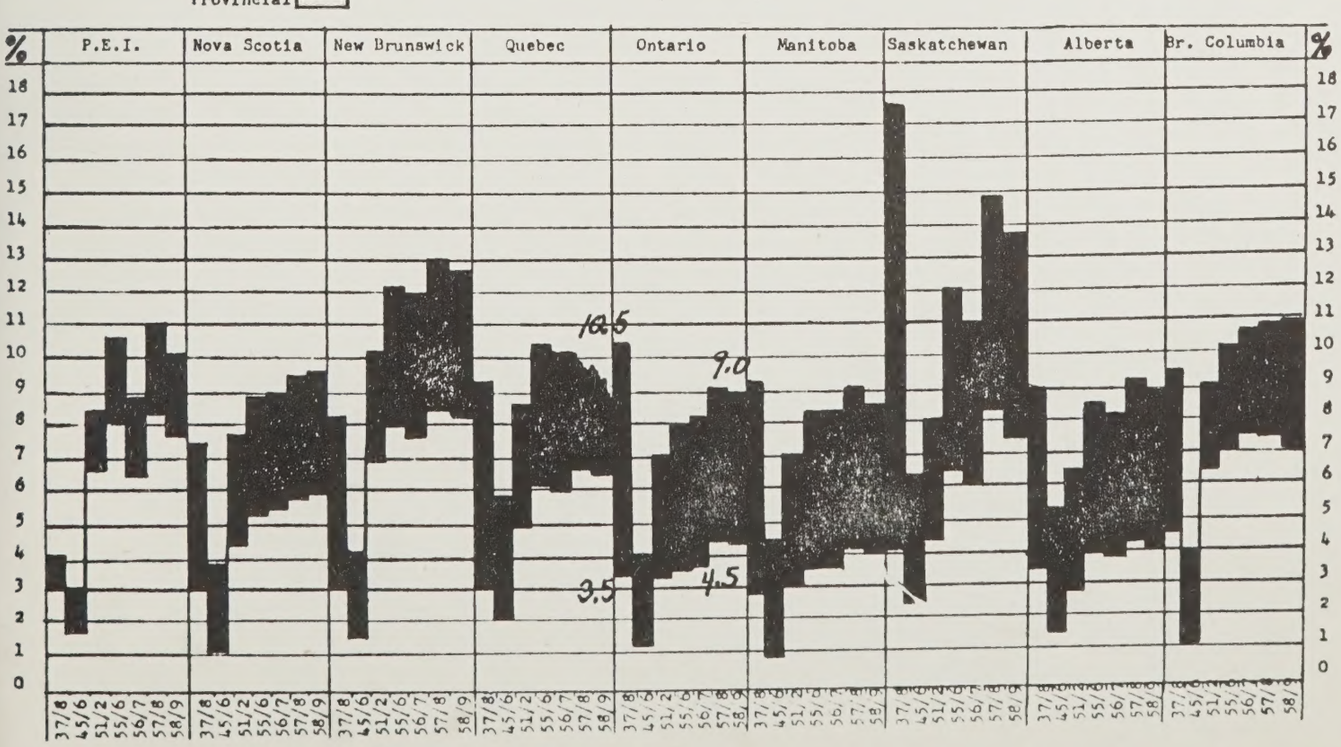
Municipal Taxation
Provincial Taxation

1957/8 Figures are preliminary
1958/9 Figures are estimates



GRAPH II

Table 4
Per Centage Relationship of Per Capita Provincial & Municipal Taxation
to Per Capita Personal Income by Provinces

Municipal
Provincial

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